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ABSTRACT

Developed to provide library directors, staff, and board members with information for performing accounting and financial management functions, this guide answers frequently asked questions, describes common practices and processes, provides examples and suggested formats for selected financial reports, and identifies issues that may require outside assistance. Although relevant for libraries of various types and sizes, the guide is more focused toward governmental unit libraries. The following chapters are included: (1) "Accounting for Libraries," including basis of accounting, types of funds, comparison of governmental funds and commercial accounting, and Governmental Accounting Standards Board; (2) "Fund Balance," including determining fund balance and special considerations; (3) "Budgeting," including budget concepts, types, requirements, and calendar, as well as an example budget; (4) "Financial Reporting," including purpose, external/internal requirements, and sample reports; (5) "Property Taxes," including the property tax process, taxable value, mileage rates, and the Headlee Amendment; (6) "State Funded Revenue," including components of state funded revenue; (7) "Investments," including explanation of the Investment Act, summary of legal investments, and requirements of an investment policy; (8) "Financing of Library Projects"; (9) "Audit Process," including the difference between auditing and accounting, audit requirement, types of audits/audit process, selection of an independent auditor, and preparation for an audit; (10) "Internal Controls," including internal control objectives, components, limitations, and questionnaire, as well as common indicators of fraud or embezzlement; and (11) "Glossary of Terms." (MES)

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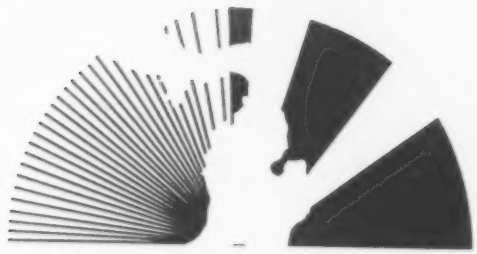
LIBRARY OF MICHIGAN

FINANCIAL MANAGEMENT REFERENCE GUIDE



Library of Michigan

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Prepared by Plante & Moran, LLP

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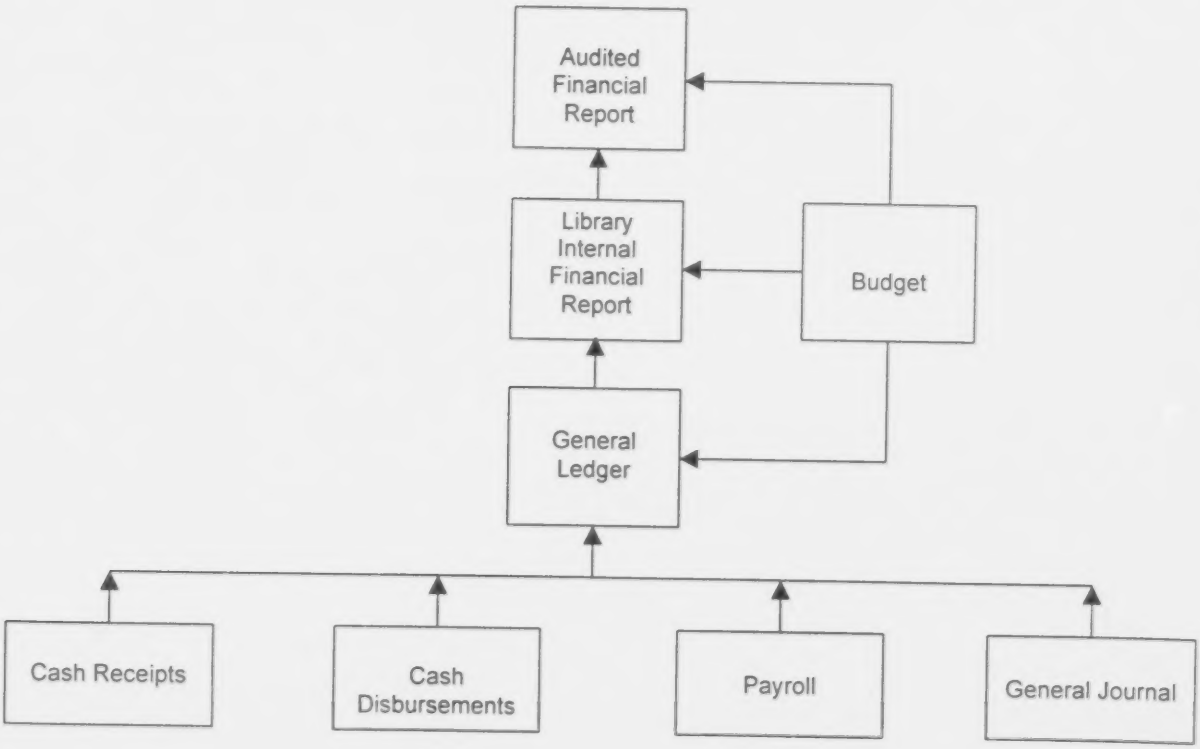
The Financial Management Reference Guide was developed to provide library directors, staff and board members with helpful information for performing accounting and financial management functions. The guide is intended to answer frequently asked questions, describe common practices and processes, provide examples and suggested formats for selected financial reports and help individuals recognize issues that may require outside assistance.

The guide has been organized to cover detailed accounting topics in the early chapters (e.g. Accounting for Libraries and Fund Balance) and to cover the financial management topics (e.g. Investments and Financing) in later chapters. Further, an attempt has been made to arrange each chapter such that summary information is provided up front with more detailed information and exhibits to follow.

Although the guide has relevant information for libraries of various types and sizes, it is more focused toward governmental unit libraries. Although the Reference Guide provides basic information and is a helpful tool, it is not possible for it to cover every anticipated question on library accounting and finance. Seek assistance, as needed, from your accounting and legal advisors.

Below is a broad overview of the elements of accounting and financial reporting, and the chapters that follow will provide information on how the elements are summarized and provide building blocks for the annual audited financial report.

ACCOUNTING AND FINANCIAL REPORTING



Chapter 1 Contents

Section 1 – Introduction to Library Fund Accounting
Section 2 – Basis of Accounting
Section 3 – Types of Funds
Section 4 – Comparison of Governmental Funds and Commercial Accounting
Section 5 – Governmental Accounting Standards Board (GASB)
Section 6 – Miscellaneous Items

SECTION 1
INTRODUCTION TO LIBRARY FUND ACCOUNTING

A) PURPOSE

The purpose of a library accounting system is (a) to show that all applicable legal provisions have been complied with; and (b) to represent fairly and accurately the financial position (Balance Sheet) and results of financial operations (Income Statement) of the library's funds and account groups.

B) DEFINITION OF A FUND

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves and equities that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations. Each fund is a completely separate accounting entity in itself, with its own accounts to record various transactions. Funds with similar characteristics are grouped together in fund groups.

C) COMMENT

While a private business enterprise can be viewed as a single economic entity with one group of assets, liabilities and equity accounts that are normally reflected in a single set of financial statements, a library may have several funds, each of which has its own assets, liabilities and fund equities. A library may be a combination of several distinctly different operations, each of which functions, and must be reported on, independently from any other fund (e.g. General Fund, Special Revenue Fund, etc.).

D) USERS OF LIBRARY FINANCIAL INFORMATION

1. Taxpayers
2. State Treasurer/Oversight Bodies
3. Administrative/Finance
4. Bond Rating Agencies
5. Intergovernmental Grantors)
6. Contributors/Creditors
7. Employees (and their unions)

SECTION 2
BASIS OF ACCOUNTING

There are two basic methods of accounting for funds: the modified-accrual basis and the accrual basis. Under the modified-accrual basis of accounting, revenue and expenditures are recorded as described below. Under the accrual basis of accounting, revenue is recorded when earned and expenses are recorded when incurred. The standard method of accounting for governmental libraries generally is the modified-accrual basis of accounting.

CHARACTERISTICS OF MODIFIED-ACCRUAL BASIS OF ACCOUNTING ARE AS FOLLOWS:

- Expenditures are recorded when incurred (i.e., when the goods are received or the services rendered), not when cash is paid or when an invoice is received. Special rules are provided for the following:
  - **Prepaid expenses**: Purchases that benefit more than one period (such as insurance paid in advance) may be prorated (but typically are not) between periods.
  - **Interest on long-term debt** should be counted on the due date of the debt.
  - **Employee compensated absences** (e.g. sick and vacation pay) should be counted when they will be paid currently (generally within 60 days); the remainder is counted in the Long-term Debt Account Group.
  - **Contingent liabilities** (e.g. lawsuits) should be recorded when they will be paid currently; the remainder is recorded in the Long-term Debt Account Group.
  - **Capital assets** should be counted as expenditures when purchased rather than capitalized and recognized over its useful life (i.e., depreciation).
- Revenue is recorded when collected or collectible soon enough to be used to pay current liabilities (referred to as "available"). "Available" generally means collectible within 30 to 60 days. Special rules are provided for the following:
  - **Property taxes** should be recorded in the fiscal period for which they were levied, provided the "available" criterion is met.
  - **Grants receipts** for reimbursement of expenditures should be counted at the same time that the expenditure is recorded.
  - **Miscellaneous revenue** such as fines and fees etc., are generally recognized when the cash is received.
  - **Proceeds of long-term debt** are recorded as an "other financing source" (similar to revenue), rather than as liabilities of the fund.

SECTION 3
TYPES OF FUNDS

Following is a list of the typical funds which may be found in accounting for governmental libraries:

A) GENERAL FUND

The General Fund accounts for all revenue and expenditures that are not required to be accounted for elsewhere. This fund typically accounts for the daily revenue and expenditures necessary to operate and provide service of a library. Most revenue and expenses are recorded in this fund. In many cases, this may be the only fund the library maintains.

B) SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions. In many cases, the use of the separate fund is mandatory. Typical special revenue activity might include accrued employee benefits (e.g. accumulated vested leave time) and LSTA grants.

C) DEBT SERVICE FUNDS

Debt Service Funds are used to account for the annual payment of principal, interest and expenses in connection with certain long-term debt. The proceeds from bond issues or other types of debt are typically recorded in the General or Capital Project Funds, depending on the stipulations of the debt instrument. Debt service fund resources are typically received via special voted property tax levies or transfers from other funds. In many cases, the use of Debt Service Funds is optional.

D) CAPITAL PROJECTS FUNDS

Capital Projects Funds are used to account for the development of capital facilities, such as an addition to a building. Typically, this fund is established to account for the construction of fixed assets or to set aside money for future capital needs. In many cases, the use of Capital Projects Funds is optional.

E) ENDOWMENT FUNDS

Endowment Funds are established to account for gifts and bequests that may be either expendable or nonexpendable, depending on legal restrictions that apply. While recording activity under a separate fund is common, it is not mandatory. In many instances, gifts and bequests may be accounted for under the General Fund.

F) ACCOUNT GROUPS

In addition to the funds listed above, there are also two self-balancing account groups:

- General Fixed Assets Account Group

  The General Fixed Assets Account Group is set up to account for long-lived assets. The assets are always acquired through a fund, usually the general fund or a capital project fund. The acquisition is accounted for as an expenditure and, therefore, no depreciation is applied against the asset. However, beyond the date of acquisition, the assets are accounted for in the general fixed assets account group. Essentially, the account group is a summary of all the long-lived assets.

  When recording assets in this account group, consideration should be given to materiality and useful life of the item. Only material items need to be accounted for as fixed assets. Libraries should establish a dollar threshold for items to be capitalized. The objective is to establish a limit high enough to avoid too much detailed record keeping yet low enough to record material fixed assets. In the event the items are sold or retired, the cost of the item should be deleted from the account group.

  Books, periodicals, recordings and film are often recorded at one dollar per item. Replacement value is often estimated based on trade publication average costs adjusted for discounts and processing costs applicable to a library's purchases. Periodically, a library should compare its insurance coverage to replacement value.

- General Long-term Debt Account Group

  The General Long-term Debt Account Group is set up to account for the unmatured principal of bonds, warrants, notes and other forms of long-term indebtedness that is secured by the full faith and credit of the library. The proceeds from issuing general long-term debt are recorded as revenue, typically in a capital projects fund or the general fund as "other financing sources." The debt service fund typically records the expenditure of the debt payments. However, beyond the date of issue, the outstanding principal amounts are accounted for in the general long-term debt account group. Essentially, the account group is a summary of all long-term debt owed by the library. As debt is retired, the account group is reduced.

SECTION 4
COMPARISON OF GOVERNMENTAL FUNDS AND COMMERCIAL ACCOUNTING

A) SIMILARITIES

- Periodic balance sheets, income statements and statements of changes in equity balances are prepared by both (except for general fixed assets and long-term debt account groups).
- The double entry system of accounts is utilized by both.
- The historical cost principle (items are recorded based on their cost at the time of the transaction), consistency principle (using consistent accounting practices) and, for the most part, generally accepted accounting principles are used by both.
- Fund accounting and commercial accounting use the same accounting terminology. However, fund accounting has some terminology unique to it (e.g. fund balance instead of equity).

B) DIFFERENCES

- A profit motive is absent from all the funds. Libraries are service and responsibility oriented.
- Most libraries use a "modified-accrual" basis of accounting, where commercial accounting uses accrual basis.
- The fund accounting emphasis is on "budgetary accounting."
- In the "modified-accrual basis" of accounting, capital expenditures are treated the same as operating expenses. Accordingly, governmental libraries typically do not compute depreciation expense. This practice differs from commercial accounting where capital purchases are accounted for in asset accounts and changed to expense over time through the depreciation account.
- Some accounting systems record purchase orders on the books as encumbrances in the library funds. Generally accepted accounting principles do not record these as expenditures, however the accounting rules do allow encumbrances to be included in the comparison of actual results of operations to budget. Although not a common practice, encumbrance accounting may provide a superior form of budget control during the year.
- A library may be a combination of several distinctly different financial operations, each having its own set of accounts or funds.
- Governmental accounting is concerned more with a comparison of actual results to budgeted amounts, rather than a maximization of net income or working capital, as in commercial accounting.

SECTION 5
GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)

The GASB was established as an arm of the Financial Accounting Foundation in April 1984 to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities. The GASB is the successor organization to the National Council on Governmental Accounting (NCGA).

GASB Concepts Statement 1 states: "Governmental financial reporting should provide information to assist users in (a) assessing accountability and (b) making economic, social and political decisions." In order to meet these overall objectives, GASB issued the following guidelines regarding financial reporting:

A) ACCOUNTABILITY

Financial reporting should assist in fulfilling government's duty to be publicly accountable and should enable users to assess that accountability. To accomplish this goal, financial reporting should meet the following criteria:

- Provide information to determine whether current year revenue was sufficient to pay for current year services.
- Demonstrate whether resources were obtained and used in accordance with the entity's legally adopted budget; it should also demonstrate compliance with other finance related legal or contractual requirements.
- Provide information to assist users in assessing the service efforts, costs and accomplishments of the governmental entity.

B) DECISION-MAKING

Financial reporting should assist users in evaluating the operating results of the governmental entity for the year. To accomplish this objective, financial reporting should also meet these criteria:

- Provide information about sources and uses of financial resources.
- Provide information about how the governmental entity financed its activities and met its cash requirements.
- Provide information necessary to determine whether the entity's financial position improved or deteriorated as a result of the year's operations.

SECTION 6
MISCELLANEOUS ITEMS

A) LIBRARY TYPES

There are a variety of library types and sizes. State laws governing how a library is established, levies taxes, issues and pays for debt, qualifies for state-funded revenue and performs other business functions vary depending on the type and size of a library. Refer to the Library Laws Handbook from the Library of Michigan, the State Laws Relating to Michigan Libraries, or consult legal counsel for detailed information concerning legal matters for the type and size of your library.

B) USERS OF GOVERNMENTAL FINANCIAL STATEMENTS

The public is vitally concerned with the cost of public services, the adequacy of revenue in meeting such costs and the stewardship and efficiency of both elected and appointed officials. Contributors and bankers are also interested in the financial status and operating results. With the development of extensive and complex intergovernmental fiscal relationships in the form of grants-in-aid, shared revenue and administrative supervision, governments must be provided with adequate financial data on the operations of other governmental jurisdictions with which these relations exist. In addition, educational and research organizations, statistical reporting agencies and such individuals as accountants, financial analysts and economists whose professional activities embrace the study and improvement of financial administration and, of course, public management whose responsibility it is to evaluate past performance in daily decision-making and in planning future operations are also users.

C) GRANTS

In recent years, many libraries have received grants and other revenue from various federal and state agencies. In connection with these, recipients agree to comply with various statutes and regulations that accompany the grants. The various statutes and regulations may vary among libraries, thus every library should follow its own agreement accordingly. Typically, most agreements are pass-through monies (i.e., federal money provided to large organizations which then provide grants to many organizations). These types of grants are usually reimbursement in nature and as expenditures are incurred, revenues are accrued. In addition, some statutes and regulations require that certified public accountants perform audits of libraries to test the compliance with these statutes and regulations in addition to performing financial audits (see Audit Process chapter).

D) CHART OF ACCOUNTS

A chart of accounts is an organized listing of all accounts used by a library to record financial information in its general ledger. The chart of accounts is to the accounting function what the Dewey Decimal System is to a library. It provides a foundation for arranging financial data into useful information. To provide reliable and consistent financial information, it is imperative that the chart of accounts be simple and functional. Accordingly, a "Uniform Chart of Accounts" has been developed by the State of Michigan under Public Act 2 of 1968, as amended, for all Michigan units of government. Information regarding the "Uniform Chart of Accounts" may be obtained by referring to Michigan Compiled Laws (MCL) 141 or from:

The State of Michigan
Local Audit and Finance Division
Department of Treasury
Treasury Building
Lansing, Michigan 48922
(517) 373-3227
www.treas.state.mi.us

E) RECORD RETENTION

Under MCL 399.5 and 750.491, government agencies must keep official books, papers or records unless it has received approval by filing a MH-38, Certificate of Records Disposal, with the State Archives of Michigan. However, a library may adopt its own record retention and disposal plan. Such individual plans must be approved by the State Archives of Michigan. Additional information may be obtained from:

State Archives of Michigan
Michigan Department of State
717 W. Allegan
Lansing, Michigan 48918
(517) 373-1408
www.sos.state.mi.us

F) TAX EXEMPT STATUS

The General Sales Tax Act and Michigan Sales and Use Tax Administrative Rule, generally provides that governmental and not-for-profit library purchases are not subject to sales and use tax. Michigan Department of Treasury Revenue Administrative Bulletin 1996-6 illustrates the recommended sales and use tax exemption claim formats. Typically, a library will provide its vendors with a blanket certificate of exemption at the time of purchase. Additional information may be obtained from:

The State of Michigan
Sales, Use and Withholding Taxes Division – Technical Section
Treasury Building
Lansing, Michigan 48922
(517) 373-3190
www.treas.state.mi.us

G) SELECTION OF ACCOUNTING SOFTWARE

There are a number of factors to consider when selecting accounting software. This is true for both large and small library organizations. Key steps involved in selecting accounting software include the following:

- Assess Existing Resources – Determine current resources in terms of software, hardware and funding.

- Assess User Requirements – Survey individuals that will be using the software to determine needs/desires over the near-, medium- and long-term, volumes of transactions in the near- and long-term and expectations concerning the potential benefits to be gained from use of the software.

- Identify Available Software – Identify available software by surveying similar organizations, reading articles and software directories, attending trade shows or contacting consultants. Make an initial determination of potential vendors.

- Evaluate Vendors – For entry or mid-level "off-the-shelf" software packages, evaluation of vendors may be accomplished by identifying the perceived strengths and weaknesses of the different packages based on research conducted before making a final determination. For other software packages, a more formal selection process may be undertaken. This could include developing detailed software specifications, soliciting bids from potential qualified bidders, evaluating bid responses and attending vendor demonstrations prior to making a final determination. Factors to evaluate include, but are not limited to the following: ease of use; vendor knowledge, stability and support; flexibility; expandability; security; ability to track needed information and ability to access needed information.

- Implementation – Once software has been selected and purchased, a strategy should be developed for how to implement the software. Establish dates for accomplishing specific tasks. Regularly review progress of implementation. A rule-of-thumb is to run both the old and new systems (run parallel systems) for a month or two to ensure that a back up exists if problems occur with the new system. This is typically time-consuming and, therefore, should be taken into account when planning the implementation.

Chapter 2 Contents

Section 1 – Introduction to Fund Balance
Section 2 – Determining Fund Balance
Section 3 – Special Considerations

SECTION 1
INTRODUCTION TO FUND BALANCE

A) DEFINITION

Fund balance is defined as the difference between the assets and liabilities of a fund.

B) CATEGORIES

Fund balance of governmental libraries can be divided among three categories:

- Reserved (restricted) fund balance

  The portion of fund balance that is legally segregated for a specific purpose and is not available for general expenditures. A common example would be unspent earmarked tax collections or donations restricted by the donors for specific purposes.

- Unreserved (unrestricted), designated fund balance

  The portion of fund balance that is set aside by the library's governing body or by library management, indicating the tentative future purpose of fund balance. For example, library board of trustees may designate fund balance for future capital acquisition needs.

- Unreserved (unrestricted), undesignated fund balance

  The portion of fund balance that represents available resources to finance expenditures that are not reserved or designated.

C) RULE OF THUMB

A commonly recited "rule of thumb" is that unreserved, undesignated fund balance should equal at least 10 percent of annual budgeted expenditures. Careful consideration of a particular library's specific facts and circumstances should be taken into account when comparing fund balance to the "rule of thumb." Section 2 provides guidance for adjusting the 10 percent rule of thumb to an individual library's needs.

SECTION 2
DETERMINING FUND BALANCE

The appropriate amount of fund balance should be determined annually, in accordance with management's fiscal philosophy, future plans, needs or situations, such as:

- Planned Capital Asset Purchases
- Accumulation of Compensated Absences (vacation and sick time due to employees)
- Contingent Liabilities
  - Lawsuits
  - Environmental cleanup
  - Michigan Tax Tribunal (property tax value protests)
- Potential Revenue Reductions (i.e., changes in state shared revenue)
- Legally Reserved or Segregated Funds
  - Advance or unspent earmarked tax collections or other receipts
  - Grants or contributions (endowments)
- Working Capital Needs Based on Expenditure Patterns

In summary, there is not a preconceived or correct amount of fund balance that a library should have. The appropriate amount of fund balance will depend on many facts and circumstances. It is the library's legislative body and the management team who should determine what the appropriate amount should be, based on the facts and circumstances of the library. Determining the fund balance goes hand in hand with determining the library's annual budget. Refer to the Budgeting chapter for further discussion.

SECTION 3
SPECIAL CONSIDERATIONS

A) DIFFERING YEAR-ENDS

Consideration should be given to the library's fiscal year in relation to its tax collection period (and by default, to the time remaining until the next "payday"). Tax collections in one year that are for the following year's budget should either be classified as deferred revenue or designated fund balance.

For example, a library with a December 31 year end collects its tax revenue in the beginning of each fiscal year and the majority of the tax collections are used in the same fiscal year. In contrast, a library with a March 31 year end collects its tax revenue at the end of each fiscal year and the majority of the tax collections are used in the following fiscal year. Therefore, the library with the March 31 fiscal year end may appear to have a larger fund balance in its annual report, but the fund balance must be used to support the following year's expenditures.

B) DEFICITS

State statutes require local units to adopt and file a deficit elimination plan in the event any governmental library fund has a fund balance deficit. The plan should be a simple explanation of how the library intends on eliminating the deficit. The plan should be sent to the following address:

State of Michigan
Local Audit and Finance Division
Department of Treasury
Treasury Building
Lansing, Michigan 48922
(517) 373-3227
www.treas.state.mi.us

Chapter 3 Contents

Section 1 – Budget Concepts
Section 2 – Types of Budgets
Section 3 – Budget Requirements
Section 4 – Budget Calendar
Section 5 – Example Budget

SECTION 1
BUDGET CONCEPTS

A) DEFINITION

A budget is a plan of financial operations embodying an estimate of proposed expenditures for a given period and the proposed means of financing them. In the State of Michigan, all general, special revenue and debt service funds are required by law to be budgeted annually.

B) PURPOSE

Under Michigan Public Act 621 of 1978, a budget appropriation (resolution adopting a budget) must be in place before a governmental unit may commit to spending money. However, there are other reasons for developing a budget. An important reason is to ensure that libraries establish a plan on how to allocate resources in order to meet the goals and service expectations of the library. A budget also allows for easy evaluation of whether the goals and service expectations are being met.

C) BUDGET PROCESS

Regardless of the type of library, the annual budgetary process involves the following three generic phases:

1. Preparation

   The preparation phase is usually the responsibility of the library director. It is accomplished by analyzing past financial data and allocating the anticipated library resources to provide the various services and activities for library patrons.

2. Adoption

   Once the budget has been prepared, it is presented to the library's legislative body (the legislative body will vary depending on the type of library) for consideration, possible modification and final approval. Typically, the public is invited to participate in this phase via public hearings on proposed budgets.

3. Execution

   Budgetary accounts are set up to record the estimated revenue and expenditures for the appropriate funds. As economic conditions and circumstances change, budget amounts can be amended by a process determined by the library's legislative body. Typically, the process is very similar to that of the original

budget. The budgetary amounts are then compared with actual amounts periodically (usually monthly). This allows the library's management team to effectively operate the library. The comparison of budget to actual results can be accomplished using a variety of formats. Please refer to the Financial Reporting chapter for further discussion.

SECTION 2
TYPES OF BUDGETS

Types of budgets available to libraries are:

1) Line item – a line item budget shows a library's budget by account type (e.g. Salaries)

2) Cost center – a cost center budget shows a library's budget by groupings (e.g. Personnel)

3) Fund total – a fund total budget shows a library's budget in fund totals (e.g. Total General Fund Expenditures)

All of the above budget types are acceptable methods of budgeting. Typically, the line item or cost center budgets are used. The use of either of these not only meets legal requirements but also provides management and the board with an effective tool to help operate and manage the library.

SECTION 3
BUDGET REQUIREMENTS

In order to comply with the Michigan Public Act 621 of 1978, certain requirements must be met. The following questionnaire is a general guide to the specific requirements. All questions should be answered "yes" to comply with the Budget Act. "The Uniform Budgeting Manual for Local Units of Government in Michigan" and other additional information regarding the Budget Act may be obtained from:

The State of Michigan
Local Audit and Finance Division
Department of Treasury
Treasury Building
Lansing, Michigan 48922
(517) 373 – 3227
www.treas.state.mi.us

Budget Questionnaire

	Yes/No
1. Has a budget been adopted (General, Special Revenue and Debt Service Funds)?	_____
2. Was a public hearing held on the budget?	_____
3. Was all the necessary information included in the budget document for the budgetary funds:	
A. Actual prior year (both revenue and expenditures)?	_____
B. Estimate of current year (both revenue and expenditures)?	_____
C. Proposed budget (both revenue and expenditures)?	_____
D. Amounts for contingencies if appropriate?	_____
E. Amount of fund balance (deficit) accumulated from prior years and the estimated surplus or deficit expected in the current year?	_____
F. Data for debt?	_____
G. Data for capital construction projects (if applicable)?	_____
4. Is the budget balanced (budgeted fund balance is zero or positive)?	_____
5. Has the budget been amended when necessary if actual revenue is less than the budget estimated?	_____
6. Has the budget been amended to allow expenditures in excess of the original appropriation?	_____
7. Is the new debt entered into, if applicable, permitted by law?	_____
8. Are expenditures equal to or less than amounts appropriated?	_____
9. Are all expenditures authorized in the budget?	_____

SECTION 4
BUDGET CALENDAR

The following is an example of a budget calendar for a library with a fiscal year of January 1 through December 31.

Timeline	Process
July	Library director begins process – concludes on format, sets management team's workshop sessions and submits data request to management team
August	Data request forms collected and summarized in workshop sessions – initial budget is formed
September	Proposed budget submitted for board review
October	Board reviews and provides input on proposed budget
November	Public hearing and budget adoption

SECTION 5
EXAMPLE BUDGET

The following is an example budget with attached supporting documentation. This is one example of how detail information ties into the summary budget document. In determining the level of revenue and expenditure detail to reflect in the budget, consider the needs of your library board, the format required by the Library of Michigan for its statistical report and any requirements of other funding sources. The first report is a summarized budget. The second and third reports are excerpts of detail supporting the budget.

LIBRARY OF SOMEWHERE
GENERAL FUND – BUDGET
YEAR END DECEMBER 31, XXXX

REVENUE

PROPERTY TAX	$228,000
SINGLE BUSINESS TAX	1,000
STATE AID TO PUBLIC LIBRARIES	13,000
CONTRACT FEES	6,000
OTHER FEES	3,000
FINES (PENAL FINES & OVERDUE FINES)	45,000
MISCELLANEOUS & CONTRIBUTIONS	21,000
INTEREST	8,000
TOTAL REVENUE	$325,000

EXPENDITURES

SALARIES	$161,000
FRINGE BENEFITS	34,000
SUPPLIES	10,000
LIBRARY MATERIALS	39,000
PROFESSIONAL & CONTRACTUAL SERVICES	14,000
OTHER OPERATING EXPENDITURES	25,000
CAPITAL OUTLAY	1,000
DEBT SERVICE	31,000
CONTINGENCIES	10,000
TOTAL EXPENDITURES	$325,000

LIBRARY OF SOMEWHERE
GENERAL FUND – BUDGET
YEAR ENDED DECEMBER 31, XXXX
SUPPORT OF LINE ITEMS

EXCERPT OF REVENUE SUPPORT OF LINE ITEMS

PROPERTY TAX (may be either voted or appropriated)		**$228,000**
(Levy 1.6394 mills on taxable value of 139,075,271)		
SINGLE BUSINESS TAX		**1,000**
STATE AID TO PUBLIC LIBRARIES Fully funded at.50 per capita		**13,000**
CONTRACT FEES		**6,000**
EAST TOWNSHIP	2,000	
WEST TOWNSHIP	4,000	
FEES (Based on estimates)		**3,000**
BOOK RENTAL FEES	1,000	
PHOTOCOPY FEES	2,000	

Include remaining revenue line item descriptions and figures in a similar manner.

TOTAL REVENUE	**$325,000**

EXCERPT OF EXPENDITURES SUPPORT OF LINE ITEMS

SALARIES			**161,000**
XXXX estimate(5 FTE's at 37.5 hours-full time)		131,000	
Plus 5% merit pool for salary increase		7,000	
Plus: one-20/Hr. Lib. Assist. @7.00/Hr		7,000	
one-20/Hr Tech @ 15.00/Hr		16,000	
FRINGE BENEFITS			**34,000**
MEDICAL/DENTAL (Includes 3% possible increase and 4 by-outs reflected in salaries)		8,000	
LIFE INSURANCE/DISABILITY		4,000	
Short Term	3,000		
Life/Long Term	1,000		
RETIREMENT (10% of full time salaries plus administrative costs)		10,000	
FICA (7.65% of projected salaries)		12,000	

SUPPLIES			10,000
(Based on XXXX estimates)			
OFFICE SUPPLIES		2,000	
LIBRARY SUPPLIES		5,000	
Processing Supplies (Labels, Barcodes, Data Mailers, Book Supports, Tattletapes, Book Processing, Toner Cartridges)	3,000		
Youth Dept. Supplies (Construction paper, Bookmarks, Fish Food, Posters, etc.)	1,000		
General Library Supplies	1,000		
BUILDING SUPPLIES (Hardware, Lumber, Bird Feed, Ice Melt, Flags, Flowers, Light Bulbs, Air Filters, Signage, etc.)		1,000	
POSTAGE (Four (4) Mailers, General Mailing, Data Mailers, etc.		1,000	
JANITORIAL SUPPLIES (C-Fold Towels, Toilet Tissue, Trash Bags Sanit. Napkins, Napkin Bags, Hand Soap, etc.)		1,000	

LIBRARY MATERIALS			39,000
ADULT BOOKS		13,000	
JUVENILE BOOKS		4,000	
ADULT AUDIO VISUAL (Videos, Audio Cassettes, CD's & CD Rom Software)		6,000	
JUVENILE AUDIO VISUAL (Videos, Toys, Cassettes Puppets & Software)		3,000	
SERVICES, SUBSCRIPTIONS, MAGAZINES		13,000	
Services & Subscriptions (e.g. Thomas Registry)	3,000		
Turner & Direct Orders	3,000		
UMI	1,000		
On-line Subscriptions	6,000		

PROFESSIONAL & CONTRACTUAL SERVICES			**14,000**
ONLINE INFORMATION TECHNOLOGY		11,000	
Staff Computer Software	500		
(New III Modules, Web Access Management, Web Circ, Telephone Notification System, File Transfer Software)	4,000		
III Maintenance (Will inc XXX/mo in XXXX)	2,700		
OCLC	1,600		
Metro Net Service	2,000		
UNIX Computer/IAC	200		
PROGRAMMING		1,000	
Adult	300		
Juvenile	500		
YA	200		
OTHER PROF/CONTRACTUAL SERVICES		500	
LEGAL		500	
MEMBERSHIP & DUES		500	
STAFF INSERVICE/DEVEL		500	

Include remaining expenditure line item descriptions and figures in a similar manner.

TOTAL EXPENDITURES	**$325,000**

LIBRARY OF SOMEWHERE
GENERAL FUND – BUDGET
YEAR ENDED DECEMBER 31, XXXX
EXCERPT OF HISTORIC AND PROPOSED LINE ITEMS

ACCOUNT NUMBER	ACCOUNT DESCRIPTION	PRIOR YEAR ACTUAL	ESTIMATE OF CURRENT YEAR	PROPOSED BUDGET
271-738-403	PROPERTY TAXES	200,000	210,000	228,000
271-738-404	SINGLE BUSINESS TAX	1,000	1,000	1,000
271-738-566	STATE AID	12,000	12,000	13,000
271-738-606	CONTRACTUAL FEES	6,000	6,000	6,000
271-738-607	OTHER FEES	3,000	3,000	3,000
	271-738-609 BOOK RENTAL FEES	1,000	1,000	1,000
	271-738-613 PHOTOCOPY FEES	2,000	2,000	2,000
	Include remaining revenue line item descriptions and figures in a similar manner.			
	TOTAL REVENUE	$273,000	$296,000	$325,000

ACCOUNT NUMBER	ACCOUNT DESCRIPTION	PRIOR YEAR ACTUAL	ESTIMATED CURRENT YEAR	PROPOSED
271-738-702	SALARIES & WAGES	150,000	156,000	161,000
271-738-715	FRINGE BENEFITS	28,000	32,000	34,000
	271-738-716 MEDICAL/DENTAL	6,000	7,000	8,000
	271-738-717 LIFE INS/DISABILITY	3,000	4,000	4,000
	271-738-718 RETIREMENT	8,000	9,000	10,000
	271-738-720 FICA & MEDICARE	11,000	12,000	12,000
271-738-725	SUPPLIES	8,000	11,000	10,000
	271-738-727 OFFICE SUPPLIES	1,000	1,000	2,000
	271-738-728 LIBRARY SUPPLIES	3,000	6,000	5,000
	271-738-729 BUILDING SUPPLIES	1,000	1,000	1,000
	271-738-730 POSTAGE	1,000	2,000	1,000
	271-738-732 JANITORIAL SUPPLIES	2,000	1,000	1,000

ACCOUNT NUMBER	ACCOUNT DESCRIPTION	PRIOR YEAR ACTUAL	ESTIMATED CURRENT YEAR	PROPOSED
271-738-740	LIBRARY MATERIAL	**35,000**	**42,000**	**39,000**
	271-738-741 ADULT BOOKS	11,000	13,000	13,000
	271-738-742 JUVENILE BOOKS	3,000	5,000	4,000
	271-738-744 ADULT A-V	4,000	5,000	6,000
	271-738-745 JUV A-V	4,000	4,000	3,000
	271-738-747 SUBSCRIPTIONS	12,000	15,000	13,000
	271-738-748 BOOK RENTAL	1,000	0	0
271-738-801	PROF & CONT	**13,000**	**12,000**	**14,000**
	271-738-808 ONLINE INFO	12,000	10,000	11,000
	271-738-809 PROGRAMMING	0	1,000	1,000
	271-738-810 OTHER PROF	0	0	500
	271-738-812 LEGAL	0	0	500
	271-738-814 MEMBERSHIP/DUES	500	500	500
	271-738-815 STAFF INSERVICE	500	500	500

Include remaining expenditure line item descriptions and figures in a similar manner.

	TOTAL EXPENDITURES	**$272,000**	**$296,000**	**$325,000**

Chapter 4 Contents

Section 1 – Purpose
Section 2 – External Requirement
Section 3 – Internal Requirement
Section 4 – Internal Sample Reports

SECTION 1
PURPOSE

The purpose of financial reporting is to provide summarized financial information in order for readers to make informed decisions. These decisions are made to ensure that library funds are used for approved purposes and provide a way to hold decision makers accountable for their actions.

See Exhibit 4-1 on page 4.9 for a diagram that illustrates how the elements of accounting and financial reporting are summarized and provide building blocks for the annual audited financial report.

SECTION 2
EXTERNAL REQUIREMENT

Michigan Public Act 2 of 1968, as amended, requires that each governmental unit serving a population of 4,000 or more have an annual audit (those under 4,000 must have an audit every other year). Refer to MCL 141.433 Sec. 5. Other non-governmental libraries are subject to audits as required by governing bylaws or other authoritative documents.

Libraries that receive federal funding may also require a program-specific audit or an OMB Circular A-133 audit (Single Audit). The funding agency's grant document should dictate whether a separate audit is necessary.

Copies of audit reports should be sent by the auditors to:

The State of Michigan
Local Audit and Finance Division
Department of Treasury
Treasury Building
Lansing, Michigan 48922
(517) 373-3227
www.treas.state.mi.us

Refer to the Audit Process chapter for further discussion.

SECTION 3
INTERNAL REQUIREMENT

All libraries, regardless of size, should periodically present summarized financial information to provide management and the board the ability to make informed financial decisions. Libraries should have formal, well-documented internal reporting policies. Internal reporting policies often include:

1. Comparative monthly and annual financial statements, including budget and actual amounts, prepared on a consistent basis.

2. Explanations of unusual variances between budgeted and actual amounts.

3. Periodic meetings between management and the board to review financial reports.

SECTION 4
INTERNAL SAMPLE REPORTS

Typically, libraries prepare monthly reporting packages that are usually formatted in one of the following methods:

1. Annual budget vs. actual – The simplest of the four reporting packages, it depicts the annual budget versus actual results through a period of time.

2. Prorated budget vs. actual – This form displays the annual budget prorated by time versus actual results through the same period of time.

3. Percentage budget vs. actual – This form depicts actual results over a period of time as a percentage of the annual budget.

4. Incremental budget vs. actual – The most comprehensive of the four reporting packages, this form allocates the budget over a time period based on anticipation of when events will take place and is compared to the actual results over the same time period.

Reporting packages might also include cash flow analysis detailing cash inflow compared to outflow.

The following are samples of the above mentioned internal financial reports:

LIBRARY OF SOMEWHERE
GENERAL FUND
SIX MONTHS ENDED SOMETIME

Sample Budget Report – "Annual Basis"

	Annual Budget	YTD	Variance	Explanation of Variance
Revenue:				
Property Taxes	$60,000	$58,000	$(2,000)	Taxes collected early in the year
Penal Fines	30,000	15,000	(15,000)	
Grants	20,000	7,500	(12,500)	Grant reimbursements lag expenditures
Other	10,000	5,100	(4,900)	
Total Revenue	120,000	85,600	(34,400)	
Expenditures:				
Personal Services	84,000	39,000	45,000	2 positions unfilled through mid year
Building Operations	10,000	5,700	4,300	
Collection	16,000	10,000	6,000	Budget is okay - book orders were
Capital Outlay	5,000	1,500	3,500	planned for early in the year
Other Operating	6,200	2,900	3,300	
Total Expenditures	121,200	59,100	62,100	
Net Revenue (Expenditures)	(1,200)	26,500	27,700	
Fund Balance - Beginning	16,200	16,200	-	
Fund Balance - Ending	$15,000	$42,700	$27,700	

LIBRARY OF SOMEWHERE
GENERAL FUND
SIX MONTHS ENDED SOMETIME

Sample Budget Report – "Prorated Basis"

	Annual Budget	Prorated Budget	YTD	Variance	Explanation of Variance
Revenue:					
Property Taxes	$60,000	$30,000	$58,000	$28,000	Taxes collected early in the year
Penal Fines	30,000	15,000	15,000	-	
Grants	20,000	10,000	7,500	(2,500)	Grant reimbursements lag expenditures
Other	10,000	5,000	5,100	100	
Total Revenue	120,000	60,000	85,600	25,600	
Expenditures:					
Personal Services	84,000	42,000	39,000	3,000	2 positions unfilled through mid year
Building Operations	10,000	5,000	5,700	(700)	
Collection	16,000	8,000	10,000	(2,000)	Budget is okay - book orders were
Capital Outlay	5,000	2,500	1,500	1,000	planned for early in the year
Other Operating	6,200	3,100	2,900	200	
Total Expenditures	121,200	60,600	59,100	1,500	
Net Revenue (Expenditures)	(1,200)	(600)	26,500	27,100	
Fund Balance - Beginning	16,200	16,200	16,200	-	
Fund Balance - Ending	$15,000	$15,600	$42,700	$27,100	

LIBRARY OF SOMEWHERE
GENERAL FUND
SIX MONTHS ENDED SOMETIME

Sample Budget Report – "Percentage Basis"

	Annual Budget	YTD	Percentage	Explanation of Variance
Revenue:				
Property Taxes	$60,000	$58,000	97%	Taxes collected early in the year
Penal Fines	30,000	15,000	50%	
Grants	20,000	7,500	38%	Grant reimbursements lag expenditures
Other	10,000	5,100	51%	
Total Revenue	120,000	85,600	71%	
Expenditures:				
Personal Services	84,000	39,000	46%	2 positions unfilled through mid year
Building Operations	10,000	5,700	57%	
Collection	16,000	10,000	63%	Budget is okay - book orders were
Capital Outlay	5,000	1,500	30%	planned for early in the year
Other Operating	6,200	2,900	47%	
Total Expenditures	121,200	59,100	49%	
Net Revenue (Expenditures)	(1,200)	26,500		
Fund Balance - Beginning	16,200	16,200		
Fund Balance - Ending	$15,000	$42,700		

LIBRARY OF SOMEWHERE
GENERAL FUND
SIX MONTHS ENDED SOMETIME

Sample Budget Report – "Incremental Basis"

	Annual Budget	Incremental Budget	YTD	Variance	Explanation of Variance
Revenue:					
Property Taxes	$60,000	$57,000	$58,000	$1,000	Taxes collected early in the year
Penal Fines	30,000	15,000	15,000	-	
Grants	20,000	10,000	7,500	(2,500)	Grant reimbursements lag expenditures
Other	10,000	4,500	5,100	600	
Total Revenue	120,000	86,500	85,600	(900)	
Expenditures:					
Personal Services	84,000	40,000	39,000	1,000	2 positions unfilled through mid year
Building Operations	10,000	5,600	5,700	(100)	
Collection	16,000	10,500	10,000	500	Budget is okay - book orders were
Capital Outlay	5,000	1,500	1,500	-	planned for early in the year
Other Operating	6,200	2,900	2,900	-	
Total Expenditures	121,200	60,500	59,100	1,400	
Net Revenue (Expenditures)	(1,200)	26,000	26,500	500	
Fund Balance - Beginning	16,200	16,200	16,200	-	
Fund Balance - Ending	$15,000	$42,200	$42,700	$500	

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LIBRARY OF SOMEWHERE
CASH FLOW ANALYSIS

Projected	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Cash at Beginning of Month	10,000	36,700	51,400	50,200	46,600	41,300	36,000	31,200	28,100	23,300	18,100	13,800	
Receipts:													
Property Taxes	30,000	20,000	7,000	-	-	-	-	-	3,000	-	-	-	60,000
Penal Fines	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Grants	1,700	1,700	1,600	1,600	1,700	1,700	1,700	1,600	1,700	1,700	1,700	1,600	20,000
Other	800	800	800	800	600	700	1,000	900	900	900	900	900	10,000
Total Receipts	35,000	25,000	11,900	4,900	4,800	4,900	5,200	5,000	8,100	5,100	5,100	5,000	120,000
Disbursements:													
Personal Services	6,200	6,100	7,700	6,100	6,200	7,700	6,800	6,800	8,600	6,700	6,700	8,400	84,000
Building Operating	1,000	900	900	900	900	1,000	800	700	700	700	700	800	10,000
Collection	700	2,800	3,500	-	2,500	1,000	1,900	-	-	1,800	1,500	300	16,000
Capital Outlay	-	-	500	1,000	-	-	-	-	3,000	500	-	-	5,000
Other Operating	400	500	500	500	500	500	500	600	600	600	500	500	6,200
Total Disbursements	8,300	10,300	13,100	8,500	10,100	10,200	10,000	8,100	12,900	10,300	9,400	10,000	121,200
Net Increase (Decrease)	26,700	14,700	(1,200)	(3,600)	(5,300)	(5,300)	(4,800)	(3,100)	(4,800)	(5,200)	(4,300)	(5,000)	(1,200)
Cash at End of Month	36,700	51,400	50,200	46,600	41,300	36,000	31,200	28,100	23,300	18,100	13,800	8,800	

BEST COPY AVAILABLE

LIBRARY OF SOMEWHERE
CASH FLOW ANALYSIS

Actual	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Cash at Beginning of Month	10,000	36,100	50,200	50,800	46,800	41,300	36,500	-	-	-	-	-	
Receipts:													
Property Taxes	30,000	20,000	8,000	-	-	-							58,000
Penal Fines	2,500	2,500	2,500	2,500	2,500	2,500							15,000
Grants	1,000	1,200	1,500	1,200	1,500	1,100							7,500
Other	900	800	1,200	800	600	800							5,100
Total Receipts	34,400	24,500	13,200	4,500	4,600	4,400	-	-	-	-	-	-	85,600
Disbursements:													
Personal Services	6,200	6,100	7,700	6,100	6,200	6,700							39,000
Building Operating	1,000	1,000	900	900	900	1,000							5,700
Collection	700	2,800	3,000	-	2,500	1,000							10,000
Capital Outlay	-	-	500	1,000	-	-							1,500
Other Operating	400	500	500	500	500	500							2,900
Total Disbursements	8,300	10,400	12,600	8,500	10,100	9,200	-	-	-	-	-	-	59,100
Net Increase (Decrease)	26,100	14,100	600	(4,000)	(5,500)	(4,800)	-	-	-	-	-	-	26,500
Cash at End of Month	36,100	50,200	50,800	46,800	41,300	36,500	-	-	-	-	-	-	

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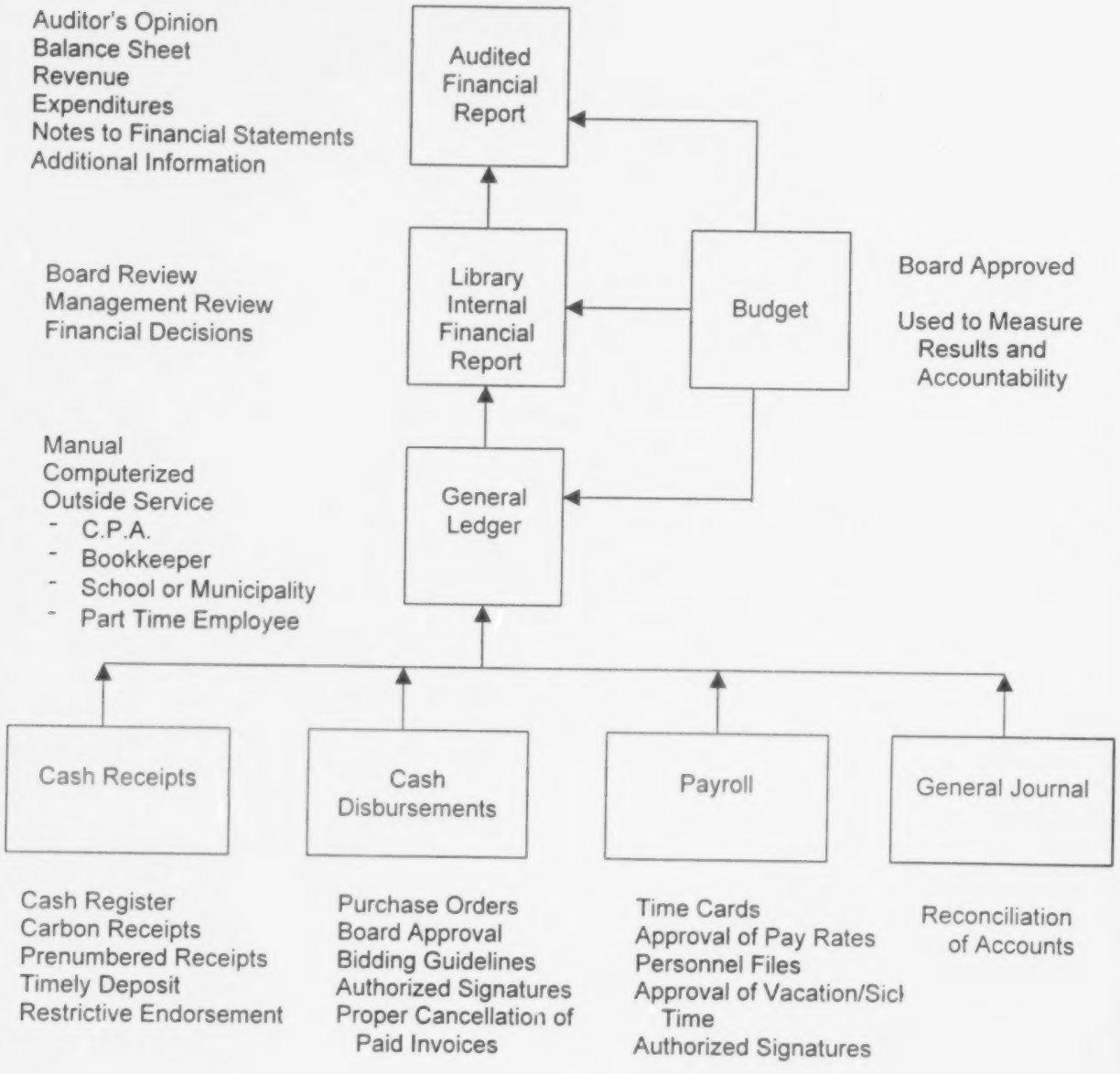
EXHIBIT 4-1
ACCOUNTING AND FINANCIAL REPORTING



Chapter 5 Contents

Section 1 – Overview of the Property Tax Process
Section 2 – Taxable Value
Section 3 – Millage Rates
Section 4 – The Headlee Amendment

SECTION 1
OVERVIEW OF THE PROPERTY TAX PROCESS

If levied, property taxes are generally a library's most important source of revenue. In addition to normally being the largest single source of revenue, it is also controllable by the local government within certain constitutional and statutory guidelines.

Property taxes are often misunderstood because of the complexities and volume of the rules that need to be followed in their application. It is helpful to remember that property taxes are simply the **Taxable value** of each property multiplied by the **Millage rate** approved to be levied.

The **Taxable Value** is simply the number that results from the process devised by 1994's constitutional amendment known as "Proposal A". As described in more detail in the next section, this number used to be equal to fifty percent of the property's fair market value; that is not usually the case any more.

The **Millage Rate** is the amount of taxes to be paid per thousand dollars of taxable value. As discussed in the third section, this is subject to several constitutional and statutory provisions.

The property subject to taxation includes all real property and personal property of businesses. Property owned by public entities (federal, state and local units of government) are exempt, as well as certain religious and not-for-profit organizations. In addition, mobile homes that reside in trailer parks are exempt since they constitute personal property (they pay a "trailer park fee" of three dollars per month in lieu of property taxes). As a result of Proposal A, many residential properties are classified as "homestead properties." This designation does not need to concern the library, since the designation of a property as a homestead only affects the levying of school taxes.

SECTION 2
TAXABLE VALUE

The process of calculating each property's **Taxable Value (TV)** begins with the assessor who places a value on all taxable property within the community as of December 31, of each year. This value, called the Assessed Value (AV), is intended to be fifty percent of the property's true cash value (fair market value).

By March 1 of each year, the assessor must send a notice to each property owner whose assessment has increased from the prior year. This gives each property owner a chance to challenge the assessor's valuation, which they may do at the community's board of review (which takes place during March or April of each year). The board of review may only adjust assessed valuations (it does not have the power to change a tax bill in any way other than changing the assessed valuation).

The Assessed Value then goes through the equalization process, where both the County and the State compare a sample of Assessed Values to actual property sales, in order to determine whether there is a need to apply an equalization factor. The resulting quotient, the State Equalized Value (SEV), is the current estimate of the property's new Taxable Value if it were to be sold or otherwise transferred. After the implementation of the Truth in Assessing legislation in the mid-1980's, most equalization factors are 1.0000, meaning that the SEV is equal to AV for all properties.

Prior to 1994, this SEV was the tax base against which the millage rate was applied. However, the "Proposal A" constitutional amendment limited the growth in any individual property's tax base by the lesser of five percent or inflation. This new, limited value is known as the **Taxable Value (TV)**.

For the majority of properties, Taxable Value (TV) will be the prior year's TV increased by inflation. However:

- If inflation is above five percent, it will be the prior year's TV increased by five percent.
- If the property's fair market value is less than twice this amount, TV will be equal to SEV, or one-half the property's true cash value.
- If a property is sold (or otherwise transferred) during the year, the TV will be re-set to one-half the property's true cash value. By the way, there is no requirement that this bear a relationship to the prior year's SEV.

SECTION 3
MILLAGE RATES

As discussed above, the millage rate is the amount of tax to be levied per thousand dollars of taxable value.

Authorized Operating Millage

Cities, villages, townships and counties have maximum authorized operating millage rates within which the legislative body may levy without voter approval. For home rule cities and villages, this maximum rate is set by its charter; for all others, this rate is set by state law. In addition to the operating millage, a government unit community may have additional extra voted millage for Library operations, or for Library debt. A tax may not be levied unless approved through a ballot proposal process (i.e., voter approval). See MCL 397.201 or 397.210.

For district libraries, a district-wide operating tax may not exceed 4 mills. Any portion of the total district-wide tax that exceeds 2 mills cannot be authorized for a period exceeding 20 years. Additional restrictions apply. See MCL 397.183 Sec. 13.

Fifty voters of a city may petition for a tax to be levied of up to 2 mills to establish a free public library in that city. A tax may not be levied without voter approval. See MCL 397.210a.

Headlee Rollback

The Headlee rollback factor is a result of the Headlee amendment of 1978, which included a provision that a community's total tax base should not increase faster than the inflation rate (after adjusting for new property additions or losses)[1]. The Headlee implementing legislation rolls back the maximum authorized millage rate for each taxing jurisdiction, to the extent that the total tax base increases more than the rate of inflation. Headlee does not apply to a debt millage. The Headlee millage reduction can reduce a maximum authorized millage when tax base increases faster than inflation, but it may not increase a millage when tax base increases slower than inflation. The maximum authorized millage can only be restored by a vote of the residents.

Putting it all together

Following is a sample property tax calculation, that should clarify key concepts:

Total TV (taxable value)	$ 100,000,000
Millage rate:	
Maximum authorized (originally was 2, has been rolled back by Headlee to 1.75)	
Millage approved by board to be levied	1.75
Property tax revenue	$ 175,000

[1] With the passage of Proposal A, it was initially uncommon for the Headlee rollback factor to apply. However, more recently, communities experiencing significant property sales (i.e., turnover) are finding that Headlee applies. This is because upon sale of a property, the TV is reset at 50% of the true cash value (i.e., sales price) and the gap between AV and TV may be significant.

SECTION 4
THE HEADLEE AMENDMENT

The Headlee Amendment amended 11 sections of the Michigan Constitution.

It imposes tax limitations on the state, county, municipal, school district and related local governmental units as noted below:

1. The amendment limits growth in state revenue to the growth in personal income for the State of Michigan.

2. The amendment prohibits the state from mandating activities of local governments without reimbursing these local governments for the increased costs.

3. The amendment requires a rollback in local authorized millage rates if the local tax base (TV) increases more than inflation.

4. The amendment requires voter approval for bonds pledging the full faith and credit of the local government.

5. The amendment prohibits the imposition of any local tax not previously authorized without voter approval.

The Headlee rollback referred to in the third item above is calculated using these factors:

1. Inflation rate - Based on general price level for the State's fiscal year (October 1, to September 30)

2. Taxable Value (TV) – Information comes from the County

3 Millage Reduction Fraction (MRF) - The result of the calculation that is used to determine if rollback is necessary.

4. Additions – New construction and other additions to tax rolls (including value of property exempt prior year but on the tax rolls current year). Calculated by multiplying true cash value by the ratio of Taxable Value to True Cash Value in the previous year.

5. Losses – Removal or destruction of property and other losses to tax rolls (including value of property taxed prior year but exempt current year). Calculated by multiplying true cash value by the ratio of Taxable Value to True Cash Value in the previous year.

The purpose of rolling back the millage rate is so that the municipality collects the same amount of tax as in the prior year plus an additional amount for inflation. The municipality cannot benefit from the increase in TV over and above an inflationary increase (other than TV increases caused by new construction, etc.).

Chapter 6 Contents

Section 1 – Components of State Funded Revenue

SECTION 1
COMPONENTS OF STATE FUNDED REVENUE

A) STATE AID

Legislative guidelines of Public Act 89 of 1977 provide five state aid grants for libraries. The Act also provides the Library of Michigan the ability to administer the five state aid grants. This allows the Library of Michigan to establish minimum standards of various requirements for public libraries and cooperatives seeking state aid and the process for which to distribute the aid.

The amount required to fund all grants listed in Public Act 89 has not yet been achieved through any annual appropriation. Therefore, the per capita amounts of the five grants have been prorated each year to distribute the entire amount of the appropriation. The following grant categories are funded under each annual appropriation for Public Act 89:

- Public Library Cooperatives shall receive 50 cents per capita for their served population.
- Public Libraries shall receive 50 cents per capita for their served population if minimum standards are met.
- Public Libraries that meet minimum standards and are members of a cooperative library shall receive 50 cents per capita to pay for services provided by the cooperative. All or part of this amount may be used to purchase these services.
- A Cooperative shall receive $10 per square mile for the area it serves if the area has less than 75 persons per square mile.
- County public libraries serving a population of 50,000 or less with a director who meets educational requirements can receive a maximum of $400 per month or $4,800 annually for salary reimbursement.

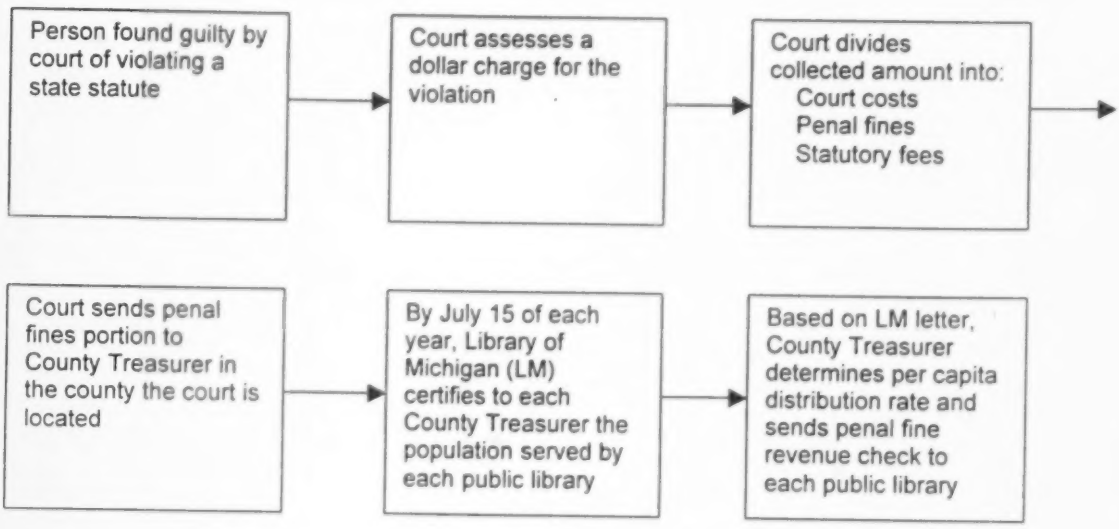
For further information on the grant requirements and guidelines of Public Act 89 of 1977, please refer to the "State Aid Guidelines for Michigan Libraries", published by the Library of Michigan at:

Library of Michigan
P.O. Box 30007
717 West Allegan Street
Lansing, MI 48909-7507
(517) 373 - 1580
www.libofmich.lib.mi.us

B) PENAL FINES

The Constitution of the State Michigan of 1963, requires that all penalties collected for violations of the state penal laws be used for the support of public libraries. The following flow chart illustrates how penal fines are determined and disbursed to public libraries.

Penal Fine Revenue Flow Chart


Person found guilty by court of violating a state statute
Court assesses a dollar charge for the violation
Court divides collected amount into:
Court costs
Penal fines
Statutory fees
Court sends penal fines portion to County Treasurer in the county the court is located
By July 15 of each year, Library of Michigan (LM) certifies to each County Treasurer the population served by each public library
Based on LM letter, County Treasurer determines per capita distribution rate and sends penal fine revenue check to each public library

Penal fines are fines that the court assesses for state criminal violations and civil infractions. To be eligible for penal fine funds, a library must be legally established under state statute and must be open at least 10 hours per week.

Citation:

State Constitution, Article VIII, Section 9
Public Act 59, 1964
Public Act 236, 1961 as amended
Various state statutes establishing public libraries
Michigan Penal Code

For further information regarding penal fines, please refer to the Library of Michigan at:

P.O. Box 30007
717 West Allegan Street
Lansing, MI 48909-7507
(517) 373 - 1580
www.libofmich.lib.mi.us

C) SINGLE BUSINESS TAX – INVENTORY REIMBURSEMENT

Under the Public Act 228 of 1975 (Single Business Tax Act), personal property inventories were no longer a revenue source for local units of government. However, the state did reimburse local units of government for the lost revenue (e.g. Single Business Tax Inventory Reimbursement).

With the 1998 changes to state shared revenue, the Inventory Reimbursement is no longer in effect. However, the new law requires that all taxing authorities that collect money for a library that levies property taxes shall pay the library the amount the library received for the 1997/1998 fiscal year. That means that any library that received Inventory Reimbursements should continue to receive the same amount. Refer to MCL 141.912a.

Chapter 7 Contents

Section 1 – Explanation of Investment Act
Section 2 – Summary of Legal Investments Under Public Act 20 of 1943 (As Ammended)
Section 3 – Requirements of an Investment Policy

SECTION 1
EXPLANATION OF INVESTMENT ACT

Investment of surplus funds of political subdivisions, including government libraries, is regulated by Public Act 20 of 1943 (as amended). Refer to (MCL) 129.91-129.96.

The law defines the investments that may be purchased by political subdivisions, including libraries. See Section 2 for a Summary of Legal Investments.

The law also requires political subdivisions, including libraries, to adopt an investment policy and for any financial brokers or dealers to agree to comply with the policy. See Section 3 for Requirements of an Investment Policy. See Exhibit 7-1 for a Sample Investment Policy that addresses minimum requirements of the law.

In addition to the minimum requirements of the law, an entity may consider adding other provisions to its investment policy. The Municipal Treasurer's Association of the United States and Canada has developed a sample investment policy that contains other provisions (available by calling (202) 737-0660.

Investment of surplus funds of non-public library organizations is in accordance with bylaws or other governing documents.

From time to time, a library may be fortunate to be the recipient of marketable securities which may not be an authorized investment. For example, some libraries may receive corporate stock from individuals or their estates. The investment act cited above governs the purchase of investments by the library. Since such a donation of stock was not purchased by the library, the library is not required to divest itself of the stock. If the library were to sell the stock and reinvest the proceeds, it must be invested in accordance with the requirements above.

SECTION 2
SUMMARY OF LEGAL INVESTMENTS
UNDER PUBLIC ACT 20 OF 1943 (AS AMENDED)

Following is a summary of legal investments. More specific information can be obtained from Public Act 20 of 1943 (as amended). Refer to MCL 129.91. Also, refer to the Glossary of Terms chapter.

- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution. The financial institution must be:
  - a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government, and
  - that maintains a principal office or branch office located in the State of Michigan under the laws of this state or the United States.
- Bonds, securities or other obligations of the United States or an agency or instrumentality of the United States.
- Commercial paper rated at the time of purchase within the two highest classifications by at least two rating services and that matures not more than 270 days after the date of purchase.
- Repurchase agreements of the United States or an agency or instrumentality of the United States.
- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one rating service.
- Mutual funds registered under the federal Investment Company Act of 1940, composed of the investment vehicles described above.
- Obligations described above if purchased through an interlocal agreement under the Urban Cooperation Act of 1967 (e.g. the MBIA Michigan CLASS program).
- Investment pools organized under the Surplus Funds Investment Pool Act (Public Act 367 of 1982) (e.g. bank pools).
- Investment pools organized under the Local Government Investment Pool Act (Public Act 121 of 1985) (e.g. the Kent County investment pool).

SECTION 3
REQUIREMENTS OF AN INVESTMENT POLICY

Public Act 20 of 1943 (as amended) requires an investment policy. Refer to MCL 129.95. The investment policy must include the following minimum requirements:

1. A statement of the purpose, scope and objectives of the policy, including safety, diversification, liquidity and return on investment.

2. A delegation of authority to make investments.

3. A list of authorized investment instruments. (see list of allowable investments on the previous page). **Important: If the policy authorizes an investment in mutual funds, it must indicate whether the authorization:**

   - is limited to securities whose intention is to maintain a net asset value of $1.00 per share; or

   - may also include securities whose net asset value per share may fluctuate on a periodic basis.

4. A statement concerning safekeeping, custody and prudence (see items 6 and 7 in Exhibit 7-1)

5. The Investment Act also requires that any financial intermediary, broker or dealer (that is, the banker or broker selling the securities):

   - be provided with a copy of the Library's investment policy;

   - acknowledge receipt of the policy; and

   - agree to comply with the terms of the policy regarding the buying or selling of securities.

Finally, the Act requires the investment officer to provide a written annual report to the board concerning the investment of the funds. Refer to MCL 129.96 Sec.6.

EXHIBIT 7-1
MICHIGAN DEPARTMENT OF TREASURY SAMPLE INVESTMENT POLICY

1. Statement of Purpose

It is the policy of _____ Library to invest its funds in a manner that will provide the highest investment return with the maximum security, while meeting the daily cash flow needs of the Library, and complying with all state statutes governing the investment of public funds.

2. Scope of Policy

This investment policy applies to all financial assets of _____Library. These assets are accounted for in the various funds of the Library and include the general fund, special revenue funds, debt service funds, capital project funds, enterprise funds, internal service funds, trust and agency funds and any new fund established by the Library.

3. Investment Objectives

In priority order, the primary objectives of _____ Library's investment activities shall be:

Safety: Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

Diversification: The investments will be diversified by security type and institution in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Liquidity: The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

Return on Investment: The investment portfolio shall be designed with the objective of obtaining a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

4. Delegation of Authority to Make Investments

Authority to manage the investment program is derived from MCL 41.76 and *(insert the board resolution designating depositories).* Management responsibility for the investment program is hereby delegated to the _____, who shall establish written procedures and internal controls for operating the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking service contracts. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the _____. The _____ shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

5. Authorized Investment Instruments

(If mutual funds are authorized, include a statement indicating whether the authorization is limited to securities whose intention is to maintain a net asset value of $1 per share or also includes securities whose net asset value per share may fluctuate on a periodic basis).

The Library is limited to investments authorized by PA 20 of 1943, as amended, and may invest in the following:

(*List the investments authorized by PA 20 that the Library board wants to allow the Library's funds to be invested in).*

6. Safekeeping and Custody

All security transactions, including collateral for repurchase agreements and financial institution deposits, entered into by _____ Library shall be on a cash *(or delivery vs. payment)* basis. Securities may be held by a third party custodian designated by the treasurer and evidenced by safekeeping receipts as determined by the _____.

7. Standard of Prudence

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as the probable income to be derived.

This simplified version was developed by the Michigan Department of Treasury. In the opinion of Treasury staff, it meets the minimum requirements of Public Act 20 of 1943, as amended by PA196 of 1997.

Chapter 8 Contents

Section 1 – Financing of Library Projects

SECTION 1
FINANCING OF LIBRARY PROJECTS

A) GENERAL

When government units need funds to finance projects or working cash needs, they may do one or more of the following:

- Issue long-term bonds or short-term notes.
- Finance items through a vendor using an installment purchase contract.
- Obtain a bank loan, if approved by the State of Michigan, Local Audit and Finance Division of the Department of Treasury.

Long-term bonds for libraries may be issued directly by the municipality, or through a financing conduit such as a building authority.

Refer to the Municipal Finance Act, MCL 131.

B) FINANCING LIMITATIONS

Ability to issue bonds varies depending on the type of library as noted below:

1. City, village and school district libraries - Bonds cannot be issued unless approved by the local legislative body (city, village or school district) and the body entrusted with management of the library (local library board, commission or other authorized body).

   Upon the concurrent approval of the local legislative body and the management body, the city, village, or school district must issue long-term bonds on behalf of the city, village or school district library.

   The amount borrowed cannot exceed ¼ of 1 percent of the assessed valuation of such city, village or school district. Previous library bonds issued (outstanding portion) or bonds authorized shall be included in the limitation calculation.

   Other restrictions apply. Refer to Public Act 305 of 1919, MCL 397.241 through 397.246 for more detailed information.

2. District Libraries - Bonds can be issued directly by a district library as authorized by the board and are debt of the district library and not of the participating government units, if any.

   The amount borrowed (bonds, notes, etc.), together with total outstanding debt of the district library, cannot exceed 5 percent of the state equalized value of the taxable property within the district.

Other restrictions apply. Refer to Public Act 265 of 1988, MCL 397.281 through 397.290 for more detailed information.

3. Township Libraries – Bonds can be issued directly by a township library as authorized by the township board.

   The amount borrowed cannot exceed 1 percent of the assessed valuation of the township.

   Other restrictions apply. Refer to Public Act 5 of 1917, MCL 397.321 through 397.326.

4. Other Public Libraries – Financing subject to Public Act 202 of 1943, Municipal Finance Act, MCL 131.

Whether a vote of the people is required in order to issue bonds is dependent on a variety of factors, including, but not limited to, type of debt and intended source for repayment of debt. Libraries should contact legal counsel in regard to this matter.

C) TYPES OF FINANCING

Discussion is limited to financing available to libraries.

1. Long-term Bonds – Long-term bonds are generally used for purchase of sites for libraries, for construction of libraries or for additions or improvements to existing libraries.

   Almost all government units use a paying agent when issuing bonds. Under this system, the government unit makes its semiannual payment to the paying agent rather than directly to each bondholder (typically interest is paid twice a year and principal once a year). The paying agent then is responsible for paying each individual bondholder.

2. Tax Anticipation Notes – Tax anticipation notes are short-term notes that the state allows only if you can show a cash flow deficit within the short-term operating period. The property tax revenue of the government unit is pledged as collateral on these notes. These notes would generally be shown as liabilities of the receiving fund (typically general fund or special revenue fund), rather than of the long-term debt group of accounts.

   Tax anticipation notes are generally used to obtain operating funds pending receipt of tax revenue in cases of a newly established library.

3. Installment Purchase Contracts – Sometimes referred to as capital leases or financing leases, these are simply contracts that allow the vendor to finance the purchase of a capital asset. These contracts typically have unfavorable interest rates. However, they are simple to accomplish and have no costs of issuance (as compared to a bond issue that requires an attorney to assist with the maze of rules to follow and sometimes has substantial cost of issuance attached to it).

4. Building Authority Bonds – This is a type of financing that government units can use to finance construction of new facilities. A new authority is created (the building authority) that issues the bonds and builds the facility (such as a new library) and then leases the facility to the government unit (in most recent instances, the amount of the lease payment exactly equals the amount of the debt service on the building authority bonds). At the end of the lease, which typically corresponds to the final bond payment, title to the property usually will pass to the lessee.

   Even though the building authority is technically a separate authority from the government unit, it is generally considered to be part of the government unit for financial statement purposes. Therefore, the building authority bonds are reported in a government unit's general purpose financial statements. A building authority bond may be either a general obligation or a revenue bond (see discussion below).

D) LEVEL OF COMMITMENT

The level of the government unit's commitment related to library bonds may be one of the following:

- A general obligation
- Limited to specific revenue (e.g. a "revenue bond")

1. General Obligation Debt – General obligation debt is any debt (bond issue or other contractual obligations such as a financing lease, etc.) in which the local government unit pledges its full faith and credit. Before the Headlee Amendment in 1975, a government unit could issue a general obligation bond, which would commit the community as a whole insofar as the community could then raise its property tax to pay for the debt service on such bonds without a vote of the people. Since the Headlee Amendment said that communities could not commit the full faith and credit without a vote of the people, "limited tax general obligation" bond issues now commit the full faith and credit of the community "as limited by the laws under the State of Michigan." What this means is that the community cannot raise its property taxes above its charter or statutory limit without a vote of the people to pay for this debt service. Communities may use preexisting property tax millages to pay for this debt service, which may result in reductions of other expenditures.

2. Revenue Bond – This is a bond that pledges all revenue from a specific project to be used to pay the debt service on these bonds. In other words, if the revenue from this specific project is not sufficient to pay the debt service requirement, then the community as a whole is not obligated to do so. This bond is riskier, of course, for the bondholder, so there is generally a higher interest rate attached to this. You would see this type of bond mainly with construction of water and sewer lines, or for the purchase or construction of significant recreation facilities (e.g. golf course or ice rink).

Chapter 9 Contents

Section 1 – Difference between Auditing and Accounting
Section 2 – Audit Requirement
Section 3 – Types of Audits/Audit Process
Section 4 – Selection of an Independent Auditor
Section 5 – Preparation for an Audit

SECTION 1
DIFFERENCE BETWEEN AUDITING AND ACCOUNTING

A) AUDITING

Auditing is a set of procedures performed to enable an auditor to express an opinion as to whether the financial statements present the financial information fairly, in all material respects, in conformity with generally accepted accounting principles as established by the American Institute of Certified Public Accountants (AICPA).

B) ACCOUNTING

Accounting is the process of identifying, recording, classifying and reporting information on economic events in a logical manner for the purpose of providing financial information for decision making.

SECTION 2
AUDIT REQUIREMENT

A) REQUIREMENT

Michigan Public Act 2 of 1968, as amended, requires that each governmental unit serving a population of 4,000 or more have an annual audit (those under 4,000 must have an audit every other year). Refer to MCL 141.433 Sec. 5. Other non-governmental libraries are subject to audits as required by governing bylaws or other authoritative documents.

Audits are performed in accordance with Generally Accepted Auditing Standards. Libraries that receive federal funding may also require a program-specific audit or an OMB Circular A-133 audit (Single Audit). See Section 3, Types of Audits/Audit Process for further discussion.

Benefits of an audit include credibility of financial statements, professional guidance in preparing useful financial statements, advice on developing and maintaining internal controls and assistance with compliance requirements.

B) DISTRIBUTION

Independent audit reports for government libraries are considered public records to be distributed upon request. Typically they are distributed as follows:

- Library board and/or audit committee
- State of Michigan Local Audit and Finance Division of the Department of Treasury

- The Library of Michigan (when a Single Audit is required under LSTA guidelines)
- Federal Audit Clearinghouse (if a Single Audit or program audit is required)
- Lenders

SECTION 3
TYPES OF AUDITS/AUDIT PROCESS

A) FINANCIAL STATEMENT AUDIT

Financial statement audits provide reasonable assurance about whether financial statements present fairly the financial position and results of operations in conformity with generally accepted accounting principles.

Components of a financial statement audit include the following:

- Consideration of the library's internal controls
- An examination of evidence supporting the amounts and disclosures in the financial statements
- An opinion expressed regarding whether the financial statements are free of material misstatement

B) PROGRAM-SPECIFIC AUDIT

Program audits for libraries are not very common but might be required for certain programs. Auditing requirements are stipulated in grant agreements.

Program audits include determining the following:

- Extent to which desired results or benefits established by the legislature or other authorizing body is being achieved.
- Effectiveness of organizations' programs, activities or functions.
- Compliance with significant laws and regulations applicable to the program.

C) OMB CIRCULAR A-133 AUDIT (SINGLE AUDIT)

Single Audits include the following:

- Perform an audit of the financial statement and schedule of expenditures of federal awards in accordance with Government Auditing Standards as prescribed in the "Yellow Book."
- Determine whether the schedule of expenditures of federal awards is presented fairly in relation to the financial statements as a whole.

- For "major programs" (determined using a prescribed, risk-based approach), obtain an understanding of internal controls relating to the compliance requirements established for the program, assess control risk and perform test of controls.

- Determine whether the library has complied with provisions of laws, regulations, contracts and grants.

- Issue report letters regarding the library's compliance with laws and regulations and internal controls related to the financial statements and major federal awards.

See Exhibit 9-1 for a chart for determining the applicability of a Single Audit.

SECTION 4
SELECTION OF AN INDEPENDENT AUDITOR

A) ESTABLISHING AN AUDIT POLICY

Library boards should develop a policy as to the type of professional relationship the library will have with its independent auditor. Some boards desire long-term relationships, while other boards believe it is appropriate to change independent audit firms every few years.

B) IDENTIFYING POTENTIAL AUDITORS

There are a number of methods for identifying potential audit firms. Referrals are often the best source. Ask for recommendations from board members, attorneys, bankers or contacts from other library organizations.

C) METHODS FOR OBTAINING QUOTES FOR PROFESSIONAL SERVICES

Methods for obtaining quotes for professional services, including audits, vary among library organizations and depend on the procurement policies of the organization. Many government and not-for-profit organizations use a request for proposal (RFP) process to obtain quotes.

RFP documents state the audit requirements, period to be covered, library contact person and method for questions to be answered or information to be obtained.

RFP documents request information including, qualifications of an audit firm, qualifications of staff to be assigned to the engagement, audit approach, references and fees.

See Exhibit 9-2 for a sample RFP document.

D) CRITERIA FOR SELECTION

Selection of a Certified Public Accountant (CPA) should be based on reputation, expertise and willingness to serve your organization. The decision-making body should develop preliminary criteria at the start of the selection process. Identification of the criteria most important to the library would also be appropriate. This information can be used to evaluate a single proposal or to evaluate and compare multiple proposals.

Criteria for selecting an auditor may include the following:

- Background of the staff to be assigned to the engagement
  - Staff experienced in accounting and auditing libraries.
  - Personal abilities of engagement staff (perceived ability to relate and work well with library staff).

- Ability of CPA to respond quickly, effectively and competently to the library's needs
  - Ability of CPA firm to complete audit by library's deadline
  - Willingness to provide recommendations for improving internal controls and financial management practices
  - Ability of engagement staff to access other resources a library may need (specialists, consultants, reference materials, etc.)
  - Overall attitude with which CPA approaches client service

- Reputation
  - How others in and outside the library field perceive the CPA
  - Involvement of staff in library professional activities
  - Commitment to serving libraries

- Fee
  - Single year or multi-year contract (library should stipulate needs)
  - Should not be the deciding criterion unless two or more firms are perceived equal in all other areas
  - CPAs that propose fees that are significantly lower than other CPA's may not be realistic about the effort required to complete the audit or are "low-balling" to get the work. In these cases, question the CPA about the basis for the fee quoted.

- Continuity of staff assigned to the engagement
  - Some level of staff turnover is likely; excessive turnover is not desirable
  - Some organizations believe planned rotation of staff is desirable as a means to bring new ideas to the engagement process.

SECTION 5
PREPARATION FOR AN AUDIT

A) HOW YOU CAN ASSIST

Following are considerations for preparing for an audit:

- Communicate throughout the year with the auditors regarding unusual or difficult accounting issues and library activities, in general

- Implement and maintain sound internal control procedures (refer to Internal Controls chapter)

- Maintain appropriate accounting and financial documentation
  - Current trial balances
  - Ongoing account analysis schedules
  - Interfund transactions balance
  - Balance sheet accounts agree to detail records
    - Bank reconciliations
    - Accounts receivable detail
    - Taxes receivable
    - Accounts payable detail
  - Filing of invoices and other accounting records
  - Maintain an audit trail
  - Maintain comprehensive "files" for key items
    - Headlee (see Property Taxes chapter)
    - Budget adoption/amendments
    - Debt information

- Prepare confirmation reports
  - Auditor must control the process including mailing the confirmations
  - You can follow up with phone calls for nonresponses

- Prepare schedules requested by auditor

- Pull samples selected by the auditor

- Prepare financial statements

B) TIMING OF AUDIT AND ASSISTANCE

- Meet/discuss with audit partner/in-charge before year-end regarding their audit approach
  - Will they document accounting system before year-end
  - Will they test transactions before year-end
  - What confirmations can be prepared ahead of time
  - What accounts will they want to analyze
  - Communicate with auditors when books will be "closed" (transactions have been recorded, adjusting journal entries have been made and a preliminary trial balance is available)
  - Identify a preliminary timetable for audit start and completion dates
  - Communicate rules regarding use of phones, photocopies and files

- Before the auditors arrive and before year-end
  - Provide work space. Consider access to phones, photocopier and files
  - Prepare confirmation requests
  - Start on analysis of key accounts identified by auditor

- After year-end
  - Complete analysis of key accounts and agree to general ledger balances
  - Agree balance sheet supporting detail to general ledger balances
  - Review general ledger for unusual account balances and investigate
  - Make all minor adjustments before finalizing general ledger

- When the Auditors arrive
  - Assign an individual (focal person) (e.g. to pull samples, make photocopies, etc.)
  - Monitor the audit progress

- After the audit is complete meet/discuss with auditors the results of the audit
  - Problem areas
  - Journal entries
  - Identify strengths of the library
  - Identify areas of improvement for the library
  - Provide feedback to auditors regarding their performance

EXHIBIT 9-1
DETERMINATION OF APPLICABILITY OF A SINGLE AUDIT

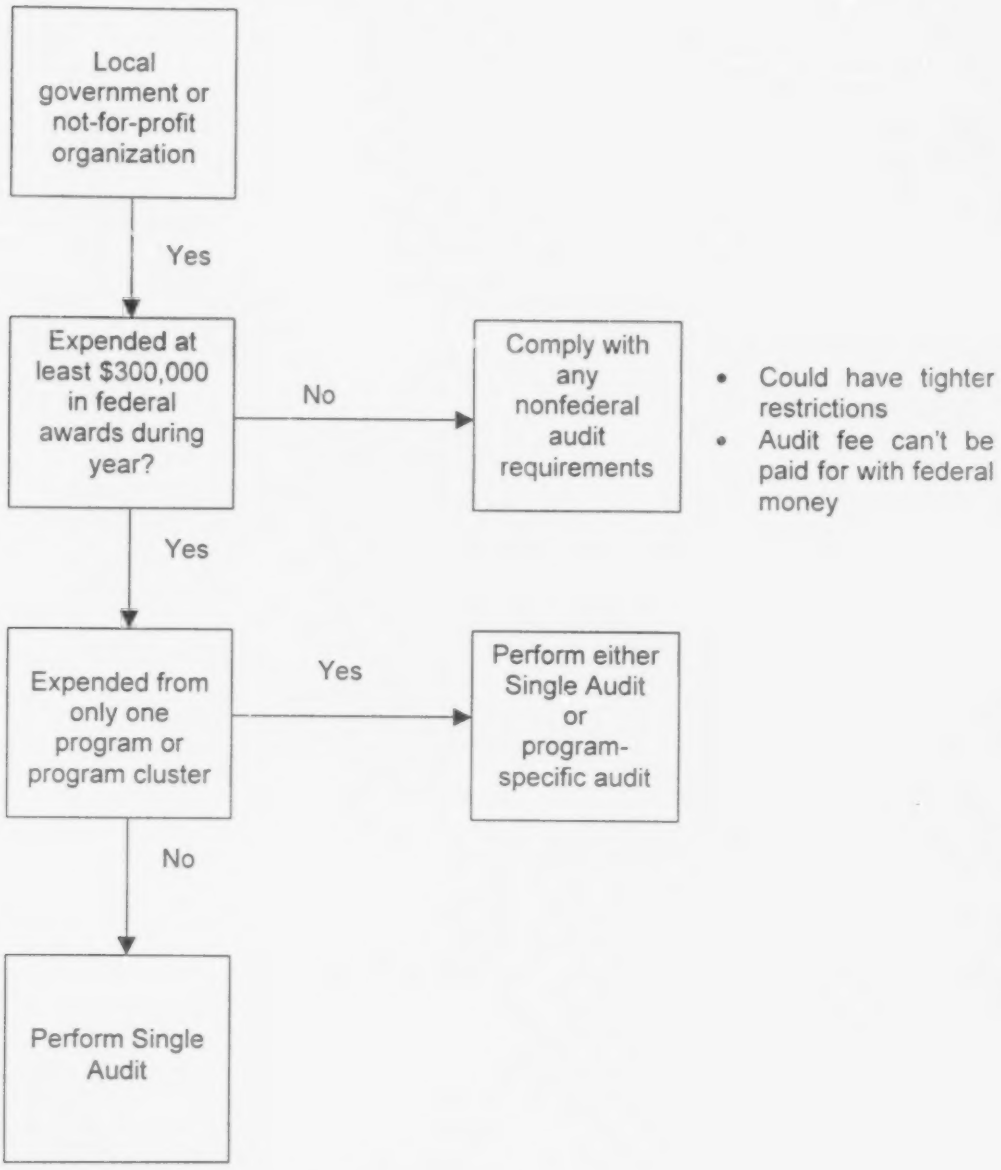

Local government or not-for-profit organization
Yes
Expended at least $300,000 in federal awards during year?
No
Comply with any nonfederal audit requirements
• Could have tighter restrictions
• Audit fee can't be paid for with federal money
Yes
Expended from only one program or program cluster
Yes
Perform either Single Audit or program-specific audit
No
Perform Single Audit

EXHIBIT 9-2
REQUEST FOR PROPOSAL
AUDIT SERVICES

NOTICE OF PROPOSAL

The _____ is issuing this request for proposal (RFP) for the financial audit of the Library's financial statements (if necessary, and a compliance audit of the federal programs in accordance with the Single Audit Act. The contact person regarding this RFP is _____ and can be reached at the _____, _____, _____. The response due date for this RFP is _____ PM, _____. Any proposals received after this date will not be considered. We are requesting only _____ copies of your proposal in a sealed envelope. The envelope should clearly indicate it is a proposal for audit services. The audit period under contract is for the year(s) ended _____, _____ and may be extended at the discretion of Library.

AUDITING STANDARDS

Your examination will be conducted in accordance with the standards for financial audits contained in Audits of State and Local Governments, and if necessary compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions, issued by the U.S. General Accounting Office, the Single Audit Act and, accordingly, will include any other tests of the accounting records and such other auditing procedures you consider necessary in the circumstances, including the requirements of Public Act 2 of 1968 as amended.

MANDATORY QUALIFICATIONS OF THE AUDITOR

The following information must be affirmed in the proposal response:

1. The proposer is properly licensed for public practice as a Certified Public Accountant.

2. The proposer meets the independence requirements of the Standards for Audit of Governmental Organizations, Programs, Activities and Functions published by the U.S. General Accounting Office.

3. The proposer does not have a record of substandard audit work. Please disclose the controls your firm has in place to ensure quality standards have been met. Also, disclose whether your firm is subject to an external quality control review process.

MONITORING

To ensure the quality of the audit, the Library may request, from time to time, a report on the progress of the audit. In addition, prior to completion of the fieldwork, an audit exit conference will be held to discuss the results of the audit.

TIME REQUIREMENTS

The Library shall receive all proposal responses by _____PM _____, _____.
We anticipate the successful bidder will be notified by _____.

EXHIBIT 9-2
REQUEST FOR PROPOSAL
AUDIT SERVICES, continued

WORKING PAPERS

The working papers shall be retained for at least three years. The working papers will be available for examination by authorized representatives of the State of Michigan, and, if required the cognizant federal audit agency and the General Accounting Office.

RIGHT TO REJECT

The Library reserves the right to reject any and all proposals submitted and to request additional information from all proposers. Any contract awarded will be made to the independent auditor who, based on evaluation of all responses, applying all criteria and oral interviews if necessary, is determined to be the best qualified to do the audit.

NUMBER OF COPIES OF AUDITOR'S REPORTS

The auditor shall furnish the Library ____ copies of all required reports. In addition, the auditor shall furnish the requested number of copies to each federal and state agency, as applicable.

CONTRACTUAL ARRANGEMENTS

Invoices for service will be paid when received. The total amount to be invoiced shall not exceed the amount of the bid unless other arrangements have been negotiated with the Library first. The cost of audits for subsequent years will be negotiated each year. The Library reserves the right to terminate the contract for audit at any time.

METHOD OF EVALUATING PROPOSALS

Proposals will be evaluated with a strict emphasis on quality. Attributes, which will be analyzed, include:

Evaluation Worksheet

1. Number of governmental entities audited by office of CPA firm proposing.
2. Firm governmental resources available.
3. Involvement in governmental activity and organizations.
4. Training of personnel in governmental (and federal grant) auditing.
5. Quality of staff included in assignment.
6. Reference responses.
7. Internal quality control procedures and external quality control review.

After technical qualities have been evaluated, cost and other considerations will be evaluated. The proposing audit firm should indicate the cost of the audit for the first year and the range or average cost per hour for audit services. Once all factors have been evaluated, the audit firm who is most qualified and reasonable in cost will be selected.

EXHIBIT 9-2
REQUEST FOR PROPOSAL
AUDIT SERVICES, continued

FORMAT OF THE RFP RESPONSE

It is suggested the RFP response be formatted as follows:

Title Page

The response should identify the RFP subject and the name of the independent auditor, local address, telephone number, name and title of contact person and date of submission. The period which the proposal is effective should also be disclosed.

Table of Contents

The table of contents of the proposal should include a clear and completed identification of the materials submitted by section and page number.

Letter of Transmittal

The letter of transmittal should contain the following information:

- A brief understanding of the audit service to be performed
- A positive commitment to perform the service timely.
- The names of persons authorized to represent the proposer, their title, address and telephone number. This may be important if different from the individual who signs the transmittal letter.

PROFILE OF THE INDEPENDENT AUDITOR

The proposers are requested to provide a profile of general background information. This should include:

1. The organization and size of the proposer, whether it is local, regional, national or international in operations.
2. The location of the office from which the work is to be done and the number of professional staff by staff level employed at that office.
3. A description of the range of activities performed by the local office such as auditing, accounting, tax service or management services.
4. A statement on the proposer's staff capability to audit federal programs, including the number and classifications of personnel skilled in federal program auditing who will work in the audit, if required to.
5. A positive statement that the following mandatory criteria are satisfied:

   A. An affirmation that the proposer is properly licensed for practice as a certified public accountant.

EXHIBIT 9-2
REQUEST FOR PROPOSAL
AUDIT SERVICES, continued

B. An affirmation that the proposer meets the independence requirements of the Standards for Audit of Governmental Organizations, Programs, Activities and Function, published by the U.S. General Accounting Office.

C. An affirmation that the proposer does not have a record of substandard work.

D. An affirmation from the proposers that they will follow the American Institute of Certified Public Accountants' (AICPA) "Interpretation 501-3, Failure to Follow Standards and/or Procedures or Other Requirements in Governmental Audits." Basically, if a member of the AICPA accepts such an engagement and undertakes an obligation to follow specified the government audit standards, guides, procedures, statutes, rules and regulations, in addition to generally accepted auditing standards, the auditor is obligated to follow such requirements. Otherwise, the auditor must disclose in the audit report the fact that such requirements were not followed and the reasons therefor.

SUMMARY OF THE PROPOSER'S QUALIFICATIONS

1. Identify the audit managers, field supervisors, and other staff who will work on the audit, including staff from other than the local office. Resumes including relevant experience and continuing education for auditor in-charge up to the individual with final responsibility for the engagement should be included. (The resumes may be included as an appendix.)

2. Describe the recent local and regional office auditing experience similar to the type of audit requested and give the names and telephone numbers of client officials responsible for three of the audits listed.

3. Other auditors who are participating in the audit are also required to provide similar information.

PROPOSER'S APPROACH TO THE EXAMINATION

Submit a work plan to accomplish the scope of the audit. The work plan should include time estimates for each significant segment of the work and the staff level to be assigned. Where possible, individual staff members should be named and their titles provided. The planned use of specialists should be specified.

The audit work plan should completely cover what audit work will be accomplished to allow the auditor to render:

1. A report on the study and evaluation and report on internal control systems.

2. Reporting on the organization's control system to assure compliance and whether the organization has complied with laws and regulations that may have an effect on each major federal assistance program.

The audit work plan should demonstrate the auditor's understanding of the audit requirements of a single audit as specified in OMB Circular A-133 and the audit tests and procedures to be applied in completing the audit plan.

EXHIBIT 9-2
REQUEST FOR PROPOSAL
AUDIT SERVICES, continued

TIME REQUIREMENTS

If not already adequately covered in the letter of transmittal, the response should detail information on when the audit firm plans to deliver the final reports.

COMPENSATION

Provide a not-to-exceed cost of services being offered for the first year of the engagement and the range or average cost per hour of audit services.

ADDITIONAL DATA

Provide any additional data the proposer feels may be helpful in the selection process.

AUDIT PROPOSAL EVALUATION

PRIOR AUDITING EXPERIENCE (0-25)

Number of municipalities/libraries currently being audited by office which will handle audit (Consider governmental units similar in size) (15)

Other governmental experience (10)

REFERENCE RESPONSES (0-25)

Are they happy with firm?

Do they meet deadlines?

Is their staff knowledgeable in municipal accounting and auditing?

Do they have low staff turnover on your audit?

Is the audit partner involved?

QUALIFICATIONS (0-30)

Involvement in municipal activities – organizations, technical committees, etc. (15)

Municipal experience of staff assigned to audit (15)

PROPOSED FEE (0-20)

Lowest fee x20

Fee of specific firm

NOTE - The above suggested allocation of points should be modified based on items your library feels are most important

Chapter 10 Contents

Section 1 – Definition of Internal Controls
Section 2 – Internal Control Objectives
Section 3 – Internal Control Components
Section 4 – Inherent Limitations of Controls
Section 5 – Internal Control Questionnaire
Section 6 – Common Indicators of Potential Fraud or Embezzlement

SECTION 1
DEFINITION OF INTERNAL CONTROLS

The American Institute of Certified Public Accountants, in Statement on Auditing Standards number 55 (SAS 55), defines the internal control structure as "the policies and procedures established to provide reasonable assurance that specific entity objectives will be achieved".

There are two aspects of internal control: internal accounting controls and administrative controls. Internal accounting controls are procedures designed to ensure the reliability of accounting data and to safeguard assets. Administrative controls deal with the operations of the library rather than with the accounting for those operations.

The legislative body of the library has a responsibility to ensure internal controls are in place to prevent misuse of funds (including fraud or embezzlement). Sections 2 through 5 address internal controls. Section 6 contains common indicators of potential fraud or embezzlement.

SECTION 2
INTERNAL CONTROL OBJECTIVES

There are four internal control objectives:

1. Safeguard assets
2. Accuracy and reliability of financial reporting and supporting information
3. Operational efficiency and effectiveness
4. Adherence with applicable laws and regulations

The first two objectives relate to internal accounting controls. These objectives are more specifically defined to provide reasonable assurance that:

a. Transactions (e.g. cash receipts and cash disbursements) are executed in accordance with management's general or specific authorization.

b. Transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements and (2) to maintain accountability for assets (e.g. cash).

c. Access to assets is permitted only in accordance with management's authorization.

d. The recorded accountability for assets is compared with the existing assets (e.g. bank reconciliations) at reasonable intervals and appropriate action is taken with respect to any differences.

The last two objectives relate to administrative controls.

SECTION 3
INTERNAL CONTROL COMPONENTS

A) CONTROL ENVIRONMENT

The control environment originates with, and is generated by the board and library director. This sets the tone and provides discipline and structure for the library. Factors affecting the control environment include: management's philosophy and operating style, organizational structure, functioning of the board, personnel policies, methods of assigning responsibility, monitoring and supervision procedures, and external influences such as government regulations.

B) MONITORING / ACCOUNTING SYSTEM

SAS 55 defines the accounting system as "the methods and records established to identify, assemble, analyze, classify, record, and report an entity's transactions and to maintain accountability for the related assets and liabilities". An effective accounting system will identify and record all valid transactions in the proper time period using appropriate classifications and will present those transactions properly in the financial statements.

C) CONTROL ACTIVITIES

Control activities are those policies and procedures developed by management to provide reasonable assurance that the organization's objectives will be achieved. Listed below are five categories of control activities. Under each category is a list of specific procedures that may be performed to satisfy that category.

1. Proper authorization of transactions.

   - The purchase of goods and services should be requested by one person and approved by another.
   - Libraries should adopt a payment authorization procedure. For example, two signatures could be required on all checks greater than a certain amount. If a library's payment authorization procedure requires board approval of disbursements, the board should have a mechanism for approving disbursements in the absence of a quorum at board meetings.
   - Creating and using budgets is a form of authorization.
   - Individuals that handle cash should be bonded (fidelity bond).

2. Segregation of duties. This includes assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets.

   - The person collecting cash should not be the person who records the cash receipt.
   - If there is enough staff, a rotation of duties can eliminate employee manipulation of records or assets.

- The approval of purchases should not be made by the person who has access to the checks.

3. Design and use of adequate documents and records to help ensure the proper recording of transactions and events.

   - Pre-numbered checks, receipts and purchase orders should be used and sequence should be accounted for.
   - Cancelled checks, vouchers, and receipts should be maintained.
   - Voucher packages (invoices, purchase orders and receiving reports) should be cancelled (stamped paid) after payment to prevent duplicate payments.
   - Invoices should be matched to receiving reports and receiving reports should be matched to purchase orders to ensure that you received what you ordered and you only pay for what you received.
   - Journals should be kept for all transactions.

4. Adequate safeguards regarding access to and use of assets and records.

   - Access to blank checks, signature plates, and purchase orders should be restricted.
   - Computers should have passwords to access and change information.
   - Work areas should be visible to supervisors.
   - Voided checks should be defaced by tearing the signature line off or writing void on the face of the check. All voided checks should be maintained.

5. Independent checks on performance and proper valuation of recorded amounts.

   - Bank reconciliations should be performed monthly.
   - Bank reconciliations should be reviewed periodically by someone other than the preparer.
   - Calculations should be checked for clerical accuracy.
   - Independent personnel should perform periodic cash counts of the petty cash account.
   - There should be supervisory review over daily operations.

SECTION 4
INHERENT LIMITATIONS OF CONTROLS

Inherent limitations on internal controls of a library are inevitable. Human error, deliberate circumvention and cost/benefit considerations are factors that must be considered when implementing or analyzing a library's internal controls. The size and resources of a given library should also be taken into consideration. Larger libraries generally have greater resources which can be used to develop and implement more fool proof controls. However, larger libraries generally have a need for more fool proof controls due to the number of employees, transactions and resources that a larger library may be responsible for. Because of the inherent limitations of controls, it is important for libraries to have written documentation of their internal controls. The documentation can be in many forms, including written narratives, flowcharts and checklists. This documentation provides employees with clear precise procedures to follow when performing various functions and allows for easy follow up and investigation in situations that warrant it.

SECTION 5
INTERNAL CONTROL QUESTIONNAIRE

The accompanying questionnaire can be used as a tool to identify areas where internal controls are weak or could be improved. Any "No" answer is indicative of a potential internal control weakness. Consideration should be given to changing existing procedures, where practical and cost beneficial, so that a "yes" answer can be given to the question. It is possible that a "yes" answer still cannot be given. This is often the case for small libraries that may only have one individual to perform financial functions. If a "yes" answer still cannot be given, consult with your CPA to ensure that sufficient offsetting factors exist.

		Answer	
		Yes	No
I.	CASH RECEIPTS		
1.	Is the mail opened by someone other than the library's bookkeeper (e.g. the Library Director)?	_____	_____
2.	Are receipts recorded by cash registers or other mechanical devices?	_____	_____
3.	If not, is a separate cash drawer used that is kept locked when unattended?	_____	_____
4.	Are each day's receipts deposited in the bank intact and without delay?	_____	_____
5.	Does someone other than the bookkeeper (e.g. the Library Director) take the deposits to the bank?	_____	_____
6.	When branch libraries make collections, are such collections deposited in a bank account subject to withdrawal only by the main library?	_____	_____
7.	Are rents, taxes, interest, and similar revenues adequately controlled in such manner that their nonreceipt would be noted and investigated?	_____	_____

II. CASH DISBURSEMENTS	Answer Yes	Answer No
1. Are all disbursements, except from petty cash, made by check?		
2. Are all checks prenumbered?		
3. Are voided checks properly defaced or mutilated and held available for subsequent inspection?		
4. Are checks required to be countersigned by the treasurer or a board member?		
5. Is the signing of checks in advance prohibited?		
6. Is the library bookkeeper prohibited from signing checks?		
7. Is the practice of drawing checks to "cash" or "bearer" prohibited?		
8. If not, are checks so drawn limited to payrolls and/or petty cash reimbursement?		
9. Are the bank accounts reconciled monthly?		
10. Is the sequence of check numbers accounted for when reconciling the bank accounts?		
11. Is the practice of examining paid checks for date, name, cancellation, and endorsement followed by the employee reconciling the bank accounts?		
12. Are the invoices or other supporting documents presented together with the checks submitted for signatures?		
13. Do the signers review invoices for propriety and appropriateness of account assigned and compare check amounts to invoices before signing checks?		
14. If a check-signing machine is in use, are the machine and signature plates kept under effective control?		
15. Is the supply of blank checks under effective control?		
16. Are the supporting documents cancelled with a "paid" stamp or other mark so as to prevent their use for duplicate payment?		

III. PETTY CASH

		Answer Yes	Answer No
1.	Is the imprest petty cash (i.e., fixed amount of cash) account system in use?	_____	_____
2.	Is the responsibility for the petty cash account vested in one person only?	_____	_____
3.	Is the petty cash account kept separate from daily cash receipts?	_____	_____
4.	Is disbursement of daily cash receipts prohibited?	_____	_____
5.	Has a maximum figure for individual payments from the petty cash account been established?	_____	_____
6.	Are payees required to sign petty cash vouchers for all disbursements?	_____	_____
7.	Is adequate approval required for petty cash advances to employees?	_____	_____
8.	Is the cashing of personal checks and IOUs prohibited?	_____	_____
9.	a. Are vouchers and supporting documents (invoices and receipts) checked by a responsible employee at the time the petty cash account is reimbursed?	_____	_____
	b. Does that employee verify the unexpended balance of the petty cash account?	_____	_____
10.	Are the amounts of the vouchers spelled out in words as well as written in numerals?	_____	_____
11.	Are petty cash vouchers marked "paid" so as to preclude their reuse?	_____	_____
12.	Are checks for reimbursement made out to the order of the petty cash custodian rather than to "cash"?	_____	_____
13.	Is the petty cash account checked at reasonable intervals by surprise counts made by an employee independent of the custodian of the account?	_____	_____

IV. INVESTMENTS

		Answer	
		Yes	No
1.	Are securities kept in a safe deposit vault in the name of the library?		
2.	If not, are they kept in safekeeping by an independent person?		
3.	Is a record kept by the bookkeeper of each security, including certificate numbers?		
4.	Are securities periodically inspected and reconciled with the records by an employee other than the bookkeeper?		
5.	Are purchases and sales of securities authorized by the board, a board committee, or an officer?		
6.	Are satisfactory records kept to ensure the proper and prompt receipt of income on securities owned?		
7.	Has an investment policy been adopted by the board and have all financial brokers, bankers and trustees agreed in writing to comply with the policy?		
8.	Are the provisions of the investment policy being followed?		

V. PURCHASES AND EXPENSE/EXPENDITURES	Answer Yes	Answer No
1. Is the budget reviewed before ordering goods?		
2. Are vendors' invoices recorded in the accounts payable journal immediately upon receipt?		
3. Are the invoices checked:		
a. Against purchase orders?		
b. Against receiving reports (as to quantity and condition)?		
4. Are invoices approved for payment by a responsible official?		
5. Is there a definite responsibility for the checking of invoices as to:		
a. Prices and credit terms?		
b. Clerical accuracy?		
c. Freight charges or allowances?		
6. Is a designated employee made responsible for the determination of the proper account distribution of invoices (pursuant to an established accounting policy) to general ledger accounts?		
7. Are the vouchers, supporting invoices, and account distributions reviewed and initialed by an employee other than the bookkeeper before payment is authorized?		
8. Is a listing of outstanding accounts payable balanced monthly with the general ledger account?		
9. Are statements received from vendors regularly checked by the bookkeeper against the open accounts payable listing?		
10. Is a postage meter used for outgoing mail?		

VI. PAYROLL

Because there is a wide range of library sizes and a wide range of number of employees at libraries, it is difficult to develop generic internal control guidelines for payroll. However, the following concepts concerning payroll would apply for all libraries:

- Employees should be paid only for those hours worked
- Employees should be paid at the correct rate of pay

Libraries should ensure that an appropriate official performs a review of the appropriate records to verify that employees are paid for hours worked at the correct rate of pay. An appropriate official may be a board member, library director or department head.

SECTION 6
COMMON INDICATORS OF POTENTIAL FRAUD OR EMBEZZLEMENT

Following are several common indicators of potential fraud or embezzlement at your library. To the extent these situations exist, further investigation is recommended.

- You notice lifestyle changes in an employee that opens the mail, accounts for cash or signs checks.
- An employee's life style appears inconsistent with their income level.
- An employee is overly nervous about audits.
- An employee will not share duties.
- An employee that handles cash or sign checks does not take allowed vacations.
- An employee works excessively on weekends or after business hours.
- A suspect employee is experiencing personal financial difficulties.
- None of the library's forms or documents are pre-numbered.
- Petty cash is missing.
- Sudden and unexplained overdrafts are occurring in the checking account.
- Duplicate or out-of-sequence check numbers are appearing on the bank statement.
- Cancelled checks returned from the bank have a different font or ink than normal.
- Non-payroll checks have been issued payable to employees.
- Payees on cancelled checks do not match entries in the general ledger.
- Invoices are being received for goods or services normally not purchased by the library.
- Invoices are being received that are not prepared/printed professionally or lack detailed information (e.g., phone or fax number, invoice number, description of goods, etc.).
- Payments are being made to unusual vendors or in unusual amounts.
- Payments to regular vendors are being made at unusual times.
- Duplicate or over-stated payments to vendors have been made.

Account

The method used to accumulate related accounting information (e.g. Salaries and Wages Expense – Library Personnel is an account used to collect the payroll costs of library personnel).

Account Groups

Account groups are used by governmental libraries to establish control over and accountability for a governmental library's general fixed assets and the unmatured principal of its general long-term debt. There are two account groups: the general fixed assets account group and the general long-term debt account group. Account groups are different from funds in that they are not used to account for revenue, expenditures or fund balances.

Accounting

Accounting is the process of identifying, recording, classifying and reporting information on economic events in a logical manner for the purpose of providing financial information for decision making.

Accounts Payable and Accrued Liabilities

A short-term liability account reflecting amounts due to individuals or organizations for goods and services purchased by a library.

Accounts Receivable

An asset account reflecting amounts due from individuals or organizations for goods and services furnished by a library.

Accrual Basis

A method of accounting whereby revenue is recorded when earned (regardless of when received) and expenses are recorded when incurred.

American Institute of Certified Public Accountants (AICPA)

The not-for-profit national association whose purpose is to promote the interests of CPAs by setting auditing standards and providing training and other services to members.

Amount to be Provided

An "asset" account in the General Long-term Debt Account Group, used by governmental libraries, representing the amount to be provided from future revenue to retire outstanding general long-term liabilities.

Annual Report

A financial report prepared annually that includes a library's financial statements.

Asset

Something of value owned by a library. A library's total assets equal its liabilities plus fund balance.

Audit

Auditing is a set of procedures performed to enable an auditor to express an opinion as to whether the financial statements present the financial information fairly, in all material respects, in conformity with generally accepted accounting principles as established by the American Institute of Certified Public Accountants (AICPA).

Audit Trail

Ability to follow through the accounting system a complete set of accounting records supporting a transaction.

Auditor's Report

A statement by the auditor describing the scope of the audit and the auditing standards applied in the examination, and setting forth the auditor's opinion on 1) the fairness of presentation of the financial statements and/or 2) the library's compliance with laws and regulations.

Balance Sheet

The financial statement disclosing the assets, liabilities, and fund balance of a library at a specified date in conformity with generally accepted accounting principles.

Banker's Acceptance

Time draft drawn on and accepted by a bank, the customary means of effecting payment for merchandise sold in import-export transactions and a source of financing used extensively in international trade. With the credit strength of a bank behind it, the banker's acceptance usually qualifies as a Money Market instrument.

Basis of Accounting

A term used to refer to when revenue and expenditures – and the related assets and liabilities – are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the nature of the measurement. See Accrual Basis and Cash Basis.

Bond

A written promise to pay a specified sum of money (called the face value or principal amount), at a specified date or dates in the future, called the maturity date(s), together with periodic interest at a specified rate. The difference between a note and a bond is that the latter is issued for a longer period and requires greater legal formality.

Bonds Payable

The face value of bonds issued and unpaid.

Books of Original Entry

The record in which various transactions are initially recorded (e.g. cash receipts journal, cash disbursements, or general journal). With automated bookkeeping methods, one transaction may be recorded simultaneously in several records, one of which may be regarded as the book of original entry.

Budget

A budget is a plan of financial operations embodying an estimate of proposed expenditures for a given period and the proposed means of financing them. In the State of Michigan, all General, Special Revenue and Debt Service Funds are required by law to be budgeted annually.

Capital Expenditures

Expenditures resulting in the purchase of or addition to a governmental library's general fixed assets.

Capitalization Policy

The criteria (i.e., dollar cut-off) used by a library to determine which purchases should be reported as fixed assets.

Capital Projects Fund

A fund used to account for development of capital facilities, such as an addition to a building.

Cash Basis

A basis of accounting under which transactions are recognized only when cash is received or disbursed.

Cashier

An individual responsible for collecting cash usually at the circulation desk of a library.

Certificate of Deposit

A debt instrument issued by a bank that usually pays interest. Maturities range from a few weeks to several years. Interest rates are set by competitive forces in the marketplace.

Certified Public Accountant (CPA)

An accountant who has met all the statutory and licensing requirements of a given state for use of that designation. All U.S. states require accountants, at a minimum, to complete successfully a uniform national examination before being allowed to designate themselves as CPAs.

Check

A written order to a bank to pay on demand a specified sum of money to a named payee out of money on deposit to the credit of the maker.

Commercial Paper

Short-term obligations with maturities ranging from 2 to 270 days is issued by banks, corporations, and other borrowers to investors with temporarily idle cash. Such instruments are unsecured and usually discounted, although some are interest-bearing.

Compliance Audit

An audit for compliance with applicable laws and regulations.

Confirmation

Process by which the auditor submits requests to banks and other entities to verify cash, investment and debt balances reflected on a government unit's financial records.

Contingent Liability

Items that may become liabilities as a result of conditions undetermined at a given date, such as guarantees, pending lawsuits, judgements under appeal, unsettled disputed claims, unfilled purchase orders, and uncompleted contracts. Contingent liabilities should be disclosed within the financial statement notes when there is a reasonable possibility a loss may have been incurred. Guarantees, however, should be disclosed even though the possibility of loss may be remote.

Cost

The amount of money or other consideration exchanged for goods or services.

Debt

An obligation resulting from the borrowing of money or from the purchase of goods and services. Debts of libraries include bonds and notes.

Debt Proceeds

The amount of money received upon issuing debt. Debt proceeds will typically differ from the debt principal amount due to bank fees, etc.

Debt Service Fund

A fund used for annual payment of principal, interest and expenses in connections with certain long-term debt.

Deferred Revenue

Revenue or support received or recorded before it is earned (i.e., before the conditions are met in whole or in part) for which the revenue or support is received or is to be received. Under the modified accrual basis of accounting, amounts that are measurable but not available are one example of deferred revenue.

Deficit

(1) The excess of the liabilities of a fund over its assets. (2) The excess of expenditures over revenue during an accounting period.

Disbursements

Payments in cash or by check.

Double Entry

A system of bookkeeping requiring that for every entry made to the debit side of an account or accounts, an entry or entries be made for an equal amount to the credit side of another account or accounts.

Due from Other Funds

An asset account used to indicate amounts owed to a particular fund by another fund for goods sold or services rendered.

Due to Other Funds

A liability account reflecting amounts owed by a particular fund to another fund for goods sold or services rendered.

Encumbrances

Commitments related to unperformed contracts for goods or services (e.g. purchase orders, executed contracts, etc.). Used in budgeting, encumbrances are not GAAP expenditures or liabilities, but represent the estimated amount of expenditures ultimately to result when unperformed contracts in process are completed or purchase orders are filled.

Endowment

Monies or property that are donated with either a temporary or permanent restriction as to the use of principal.

Endowment Fund

A fund used by a library in which a donor has directed in the donation instrument that the principal is to be maintained and only the income from the investment of the fund may be expended.

Entry

The record of a financial transaction in the accounting books.

Expenditures

A modified-accrual term used by governmental libraries to describe reductions in net financial resources. Expenditures include current operating expenses requiring the use of net current assets, debt service, and capital outlays.

Expenses

An accrual basis term used by non-governmental libraries to describe spending or other use of assets or incurring liabilities from the receipt of goods or services. This would include depreciation.

Fidelity Bond

A written promise to indemnify against losses from theft, defalcation and misappropriation of public monies by the library board, officers, or employees.

Financial Statement Audit

Financial statement audits provide reasonable assurance about whether financial statements present fairly the financial position and results of operations in conformity with generally accepted accounting principles.

Financial Statements

Those financial statements, including footnotes, necessary for the fair presentation of the financial position and results of operations of a library. The minimum required financial statements to be in conformity with GAAP include a balance sheet and a statement of revenue and expenditures. A budget comparison statement is also required for governmental libraries.

Fiscal Period

A twelve-month period for which the annual operating budget relates and at the end of which a library determines its financial position and the results of its operations.

Fixed Assets

Long-lived assets obtained or controlled as a result of past transactions, events, or circumstances. Fixed assets include buildings, furniture, equipment, improvements, and land. These assets are also referred to as property, plant and equipment.

Fund

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves and equities that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

Fund Balance

The difference between assets and liabilities of a library's fund.

Fund Type/Fund Group

Any one of several categories into which all funds are classified. The fund types/groups are: general, special revenue, debt service, capital projects, and trust for governmental libraries.

General Fixed Assets Account Group

A self-balancing group of accounts established to account for general fixed assets by a governmental library.

General Fund

The fund used by governmental libraries to account for most financial resources, except those required to be accounted for in another fund.

General Journal

A journal in which are recorded all entries not recorded in special journals. See Journal.

General Ledger

A record containing the accounts needed to reflect the financial position and the results of operations of a library. In double-entry bookkeeping, the debits and credits in the general ledger are equal (i.e., the debit balances equal the credit balances).

General Long-term Debt Account Group

A self-balancing group of accounts established to account for the unmatured general long-term debt of a governmental library. The General Long-term Debt Account Group is also used to report that portion of the liabilities for claims, judgments, compensated absences and unfunded pension contributions of governmental libraries not expected to be paid within one year.

Generally Accepted Accounting Principles (GAAP)

Uniform minimum standards and guidelines for financial accounting and reporting. They govern the form and content of the financial statements of an entity. GAAP encompasses the conventions, rules and procedures necessary to define accepted accounting practice at a particular time. They include not only broad guidelines of general application, but also detailed practices and procedures. GAAP provides a standard by which to measure financial presentations. The primary authoritative body on the application of GAAP to not-for-profit libraries is the FASB and to governmental libraries is the GASB.

Generally Accepted Auditing Standards (GAAS)

Standards established by the American Institute of Certified Public Accountants (AICPA) for the conduct and reporting of financial audits. There are 10 basic GAAS, classed into three broad categories: general standards, standards of field work, and standards of reporting. The Auditing Standards Board of the AICPA publishes Statements on Auditing Standards (SAS) to comment and expand upon these basic standards. These SAS, together with the 10 basic standards, constitute GAAS. These GAAS set forth the objectives of the audit and establish measures that can be applied to judge the quality of its performance.

Government Audit Standards (GAS)

Standards established by the U.S. General Accounting Office (GAO) in its publication *Government Auditing Standards* ("Yellow Book") for the conduct and reporting of financial and compliance audits. GAS set forth general standards applicable to audits and separate standards of field work and reporting for audits. The GAS standards of field work and reporting for financial audits incorporate and build upon GAS.

Governmental Accounting Standards Board (GASB)

The authoritative accounting and financial reporting standard-setting body for governmental libraries.

Governmental Accounting Standards Board Statement

A statement issued by the GASB specifying the accounting principles and practices to be used by governmental libraries to account for a particular financial transaction.

Grants

Contributions or gifts of cash or other assets from a government or not-for-profit entity to be used or expended for a specified purpose, activity, or facility.

Historical Cost

See Cost.

Independent Audit

An audit performed by an independent auditor.

Independent Auditor

An auditor meeting the independence criteria set forth in GAAS or GAS. In order to maintain independence, an auditor cannot be an employee of the library or a member of the library's board or management.

Internal Controls

Policies and procedures established to provide reasonable assurance that specific internal control objectives will be achieved.

Investment Grade

Bond with a rating of AAA to BBB.

Investment Pool

A combination of resources for a common purpose or benefit. For example, a bank pools the funds of its customers, giving them an opportunity to share in a portfolio offering greater diversification and the hope of a better return on their money than they could get individually.

Investments

Most commonly, securities held to generate interest and dividend revenue.

Journal

A book of original entry used to record cash receipts, cash disbursements, and non-cash transactions (e.g. record of journal entries).

Ledger

A group of accounts in which are recorded the financial transactions of an entity. See General Ledger and Subsidiary Ledger.

Liabilities

Amounts owed to others.

Long-term Debt

Any debt which matures in more than one year form the date of issuance.

Major Program

Major programs are federal programs selected for testing by an auditor using a risk based approach prescribed by OMB Circular A-133. They are generally the largest and/or riskiest federal programs of the entity.

Modified Accrual Basis

The accrual basis of accounting adapted to the governmental fund-type measurement focus. Revenue is recorded when collected or collectible soon enough to be used to pay current liabilities (referred to as "available"). "Available" generally means collectible within 30 to 60 days. Special rules apply, as well. Expenditures are recorded when incurred (i.e., when the goods are received or the services rendered), not when cash is paid or when an invoice is received. Special rules apply, as well.

Mutual Fund

Fund operated by an investment company that raises money from shareholders and invests it in stocks, bonds, options, commodities, or money market securities. These funds offer investors the advantages of diversification and professional management. For these services, they charge a management fee, typically 1% or less of assets per year.

Notes Payable

In general, an unconditional written promise signed by the maker to pay a certain sum of money on demand or at a fixed or determinable time either to the bearer or to the order of a person designated therein.

Notes to the Financial Statements

The narrative disclosures required for a fair presentation of the financial statements of a library in conformity with GAAP and not included on the face of the financial statements themselves.

Operating Transfers

Board authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended.

Other Financing Sources

Governmental library general long-term debt proceeds, proceeds from the sale of general fixed assets, and operating transfers in. Such amounts are classified separately from revenue on the governmental library operating statement.

Other Financing Uses

Governmental library operating transfers out. Such amounts are classified separately from expenditures on the governmental library operating statement.

Petty Cash

A sum of money set aside on an imprest basis to make change or to pay small obligations for which the issuance of a formal check would be too expensive and time-consuming. Petty cash accounts are sometimes referred to as petty cash funds. However, they are not "funds" in the sense of not-for-profit or governmental accounting individual funds. Petty cash accounts should be reported as assets of the fund of ownership.

Petty Cash Voucher

A form used to record individual disbursements of petty cash. The petty cash voucher accounts for any petty cash monies disbursed and explains the purpose of the disbursement along with providing the payee and amount.

Pledge

A promise to make a contribution to a library in an amount and form stipulated.

Posting

The process of transferring to an account in the general ledger the summarized data contained in a book of original entry.

Prepaid Expense

An asset account representing payment in advance of the receipt of goods and services (e.g. prepaid rent and unexpired insurance premiums).

Principal

In the context of debt, the face amount borrowed and payable on stated dates of maturity.

Purchase Order

A document authorizing the delivery of specified merchandise or the rendering of certain services and the making of a charge for them.

Receipts

Cash or checks received.

Register

A record for the consecutive entry of a certain class of transactions, with proper notation of all the required details (i.e., a cash disbursement journal is also sometimes called a check register).

Registered Security

A security that has the name of the owner written on its face. A registered security cannot be negotiated except by the endorsement of the owner.

Repurchase Agreement

Agreement between a seller and a buyer, usually of U.S. Government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and, usually, at a stated time.

Revenue

Increases in the assets of a library other than through the issuance of debt or incurrence of a liability.

Salaries and Wages Payable

A liability account reflecting salaries and wages earned by employees but not due until a later date.

Securities

A negotiable or nonnegotiable instrument that signifies an ownership interest, or right to an ownership interest or creditor status.

Schedule of Expenditures of Federal Awards

Schedule included in a Single Audit report that lists federal program information, including program name, federal identification information, expenditures, and award amounts.

Short-Term Debt

Debt with a maturity of one year or less after the date of issuance.

Single Audit

An audit of an organizations federal programs as required by the Single Audit Act Amendments of 1996 (P.L. 104-156) performed in accordance with OMB Circular A-133. A single audit is required when annual federal expenditures exceed $300,000.

Special Revenue Fund

Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Statement of Changes in Fund Balance

The financial statement that reconciles the fund balances of an entity at the beginning and end of an accounting period in conformity with GAAP. It explains the relation between the operating statement and the balance sheet.

Statement of Revenues and Expenditures

The financial statement that is the governmental library's GAAP operating statement. It presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in an entity's net current assets. Statements of changes in fund balance should be combined with operating statements into "all-inclusive" operating statement formats.

Subsidiary Account

One of a group of related accounts supporting in detail the debit and credit summaries recorded in a control account (e.g. the individual vendors' accounts for the accounts payable control account in the general ledger).

Subsidiary Ledger

A group of subsidiary accounts, the sum of the balances of which should equal the balance of the related control account (e.g. a ledger which lists the individual vendors' accounts for a library). See General Ledger and Subsidiary Account.

Trial Balance

A list of the balance of the accounts in a ledger kept by double entry, with the debit and credit balances shown in separate columns. If the totals of the debit and credit columns are equal or if their net balance agrees with a control account, the ledger from which the figures are taken is said to be in balance.

Trustee

A fiduciary holding property on behalf of another.

Voucher

A written document that evidences the propriety of transactions and usually indicates the accounts in which they are to be recorded.